# Reconciling State, Market and Society in China

## The long march toward prosperity

**Paolo Urio**


Routledge Contemporary China Series

# Reconciling State, Market, and Society in China

Analyzing post-Mao China is not an easy task, but it is essential in order to understand the rationale and scope of the reform process started by the Chinese leadership under the guidance of Deng Xiaoping at the end of the 1970s. Thirty years after the beginning of the reform process China has become a major actor in the global economic and political system and the twenty-first century is generally held to be the one in which China will become the major world power.

In this book Paolo Urio presents a balanced picture of the reform process, analyzing the economic, social, environmental, legal, political and cultural aspects of the process and showing the interconnections between them. As well as analyzing the achievements realised thus far by the reform process, this book looks ahead at the difficulties the Chinese leadership will have to face in the years to come. As such, it will be essential reading for students and scholars of Chinese politics and economics alike.

**Paolo Urio** is Professor Emeritus of Public Administration and Management at the University of Geneva, Switzerland. Professior Urio has undertaken research on China's reforms since 1997. Between 1998 and 2003 he has organized and directed a programme that trained in public management more than 400 senior Chinese civil servants and senior Party cadres.

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# Reconciling State, Market and Society in China

## The long march toward prosperity

**Paolo Urio**

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# Foreword

## How to know about contemporary China[1]

*Hu Angang, Tsinghua University*

During the 30 years of reform, China has experienced several inter-related and interwoven social and economic transitions. This includes the transition of the economic system – a transition from the mandatory planned economic system to a socialist market economic system; from the agriculture-based traditional rural society (with the rural labor making up over 70 per cent of the total and the rural population making up over 80 per cent of the total population) to a non-agriculture-based modern metropolitan society; from an extremely low-income level to a middle-income level; from dire poverty to a generally comfortable standard of living; from the sheer autarkical economy and society to a wide-open economy and society; from the traditional centralized political system to a socialist democratic political system. These transitions have put China onto the path of modernization, a path (dubbed as 'China's path') unique in the world. There are no other big powers in the world that have experienced such multiple transitions; nor are there any other countries in the world that have, like China, succeeded in warding off violent political turmoil and serious sabotage of social productivity, the serious diversification of social strata and the huge external impact in the process of globalization. There has never been such great order, such economic prosperity and such social progress than that which has lasted for three decades of China's modern history. China has achieved all of this without any precedents to go by, any successful international experience to draw on, or any established theories to follow. It is by dint of sticking to the principle of pragmatism that China has felt its way forward and achieved its pre-established goal. It is in such multiple transitions, though far from being complete or completely successful, that the mystery of China's development lies.

To study contemporary China is, in essence, to gain true understanding, knowledge and summation of the agent, process, loss and gain and prospects of its multiple social transitions. It is impossible to get unanimity of views and interpretation of such huge, profound and complicated social changes. Inevitably there will be a wide spectrum of opinions with conflicting and sometimes even diametrically opposed views. This is because people studying China are guided by different purposes, stands, perspectives, preconceived ideas and methodologies. But whatever the conclusions, they have to be put to the test of what China really is. With the passing of time, many of the once prevailing views will naturally become the

dust of history, only a tiny number of arguments will be able to stand the test of objective reality, to become real knowledge and profound insight. Today there is a worldwide China Studies fever. Cropping up out of the fever, are a number of eye-catching fallacies, such as the 'China threat', 'China's decline' and 'China, a vulnerable superpower'. To me, these are nothing but the products of 'China watchers' and conjecture. Indeed, as American Harvard professor Ezra Vogel says, American sinologists have all along had a bad record, possibly because most American sinologists cannot accurately predict where China will develop. This is quite normal. Even I, a scholar who has long been involved internally in China's reform and opening up, and who has studied China (national conditions) for more than 20 years, find it hard to get everything clear. Reading China is like reading an illegible script or 'a book from heaven' as the Chinese saying goes. It is very hard to understand, because China is so large, the situations are so complicated and the changes are so precarious that it is impossible to 'be foresighted'. It would be good enough to 'be hindsighted'. Modern China studies are harder and more complicated than was imagined.

In his 1937 writing 'On Practice', Mao Zedong said: 'There is an old Chinese saying, "how can you catch tiger cubs without entering the tiger's lair?" This saying holds true for man's practice and it also holds true to the theory of knowledge. There can be no knowledge apart from practice.'[1] It does not do to act as an observer or a 'China Watcher' if one wants to get a full and profound understanding of China. It is imperative to go deep into the Chinese society to feel and to know it. This is, indeed, very difficult for many foreign researchers.

I came to know Professor Urio in 1998, when he came to China at the invitation of Chen Weilan (daughter of former Chinese leader Chen Yun), director of the training centre of the organizational department of the CPC central committee, to give lectures to local Chinese officials. He was asked to lecture on the frontier theories of political economics and public administration. This was no a small challenge to a foreign expert at the time, but his lectures turned out to be a success. To Professor Urio, China is a miraculous country that fascinates and attracts him. His observations inspired him with the desire to read and write about China. This has culminated in his writing of this book. In recent years, Professor Urio's China visit has become an annual event. I have had the honour of accompanying him on these tours on many occasions. I was happy to help him find the agent for all the tremendous changes that have taken place in China. We have become close friends who know each other well. I recommended to him outstanding Chinese scholars, who then became sources of his understanding of China.

In contrast to other books on China, which approach China's issues from a full range of theories in such disciplines as sociology, economics and political sciences, Professor Urio has based his works on an organically inter-related, integrated and comprehensive analytical framework. How should we study contemporary China? What analytical framework should be used? My view is that it is necessary to see 'not only trees but also the forests',[2] not only China today (contemporary China) but also China yesterday (historical China) and to foretell what China will be tomorrow (future China) and not only China itself as seen internally but also China

as seen from outside by way of horizontal international comparison.

Professor Urio is very realistic when describing the logic that Chinese leaders follow in taking political and policy decisions, and how they learn from the experience and lessons of their predecessors so as to establish their own development goals and formulate more feasible policies.

As leaders of the most populous country in the world, all Chinese leaders have to set the ultimate development goal of 'making the people wealthy and the country strong'. In 1956, Mao Zedong visualized that China could catch up with and surpass the most developed capitalist country (USA) in the iron and steel output in 50 (referring to 2006) or 60 years (2016).[3] What he emphasized was the goal of making the country strong. But Deng Xiaoping put more emphasis on 'making the people wealthy' when he set the goal of building a prosperous society.[4] Although all the Chinese leaders share the same goal, we may divide China's development strategies into three generations: The first generation covers Mao Zedong and Hua Guofeng; the second generation covers Deng Xiaoping and Jiang Zemin; and the third generation covers Hu Jintao. Each generation benefits from the progressive and rational development strategies, which also have their limitations and negative effects. That is the historical logic of China's political development, that is, a new generation of leadership sums up and learns the successful experiences of the previous generation, corrects the mistakes, launches adaptive strategies and make innovations. There is continuity, transference and gradual transition even with regard to human capital, so that each generation is wiser and more capable of learning than the previous one.

The setting for China's development is constantly changing. The reform is progressing steadily. There is no hard and fast development strategy and nor is there a hard and fast development model. The development strategy during different periods of time changes according to the setting and in response to challenges. What is put into action reflects social progress but also reveals and exposes the limitations. While carrying forward Mao Zedong's line set at the 8th National Congress of the Communist Party of China, which is focused on modernization and economic development, Deng Xiaoping discarded Mao's political line in his late years of 'taking class struggle as the key link' and totally repudiated the theories and practice of the 'Great Cultural Revolution'. Instead, he developed and created a new line of reform and opening up. Deng Xiaoping also carried over Mao Zedong's legacy: material capital, infrastructure, independent industrial system, the national economic system and improved health service and education system, and international status as one of the five UN Security Council members. He then went on to put forward the theory of 'letting some of the people get rich first' in 1978. In 1988, he went on to launch the strategy of accelerating the development of coastal regions. In 1992, he made an inspection tour of southern China, driving home his idea that 'development is the hard truth'. But he refused to stick to dogmatism. In the following year, he became aware of the limitations and some problems likely concomitant with development, which might lead to unjust distribution of income and thus to polarization. He urged that these problems be resolved. In the past we put development in the first place. But now, it seems that the problems brought

about by development are no fewer than by non-development.[5] Just as Professor Urio points out in his book, Deng Xiaoping's strategy also has its limitations, such as the serious consequences of uneven development, the gaps among different regions, between the urban and rural areas and among rural villages, the negative effect of the market mechanism when it cannot be implemented effectively and the impact of economic development on the environment.

When Jiang Zemin came to power, he adjusted Deng Xiaoping's development strategy over time, launching new strategies such as protecting the environment, sustainable development (1995, 1996); protecting the cultivated land and improving the anti-flood and anti-drought capabilities (1998); taming the rivers (1999), protecting the wetland, accelerating the development of the Yangtze River Delta and regions along the river (1992); coordinating regional development (1995), the great western China development drive (1999), and developing township and village enterprises and constructing small towns; invigorating the country by developing science and education (1995) and encouraging originality in innovation (2001). He also adjusted his own development strategies, such as making employment fundamental to the livelihood of the people (2002).

When coming to the third generation of leadership headed by Hu Jintao, as Professor Urio puts it, the limitations and negative effects of the policies and lines of Deng Xiaoping and Jiang Zemin are redressed. This process will not be completed until the 19th and 20th National Party Congresses (2012, 2017). This indicates that China effects a major adjustment of development strategy about every 25 years.

The development strategies of the three generations of leadership in China mainly focus on how to handle the relationships between the government, the market and society. What Mao Zedong advocated was statism, which excluded the market, the private sector of the economy and social participation. Deng Xiaoping reformed the planned economic system and introduced market mechanism: breaking up state monopoly and allowing private sectors of the economy; breaking away from autarky and importing foreign capital; and at the same time allowing limited space for social development and direct grassroots elections. Jiang Zemin went further in the reform: targeting the establishment of an effective market system by accelerating the process of going market; steering the government toward providing more public services; and allowing greater space for activities of all kinds of social organizations.

Keeping pace with the tide of the day, Hu Jintao has tried to reshape and integrate the relationship between the state, market and society, which each has its advantages and disadvantages. The key lies in being able to integrate them more organically and more effectively so as to set the scene for long-term peace and order, lasting political and social progress and sustainable social and economic development.

First of all, China should give full play to the market mechanism, making it the starting point for allocating resources. In building a socialist market economy, China has introduced competition, tried to raise efficiency and create a good investment climate and conditions (by encouraging private investment and importing

foreign capital). China's market-oriented reform has not been completed so far, because the prices in many areas are still being distorted, it has not been possible to achieve high efficiency and stimulate conservation of energy, and production costs are still very high. All of this requires intensified exploitation of the market mechanism.

Second, China should display its unique advantages of the socialist system, that is, the capability of 'mustering the resources to achieve something big', just as Deng Xiaoping said.[6] Although China has one-fifth of the world's population, the public resources they occupy are much smaller. However, China has to provide the maximum public goods. Without an effective and responsible government (especially the central government), it is impossible to muster the resources of the whole society (public finance, public investment and public policy) to achieve anything big; nor is it possible to display the scale effect of a huge country. One of the important experiences of China is to take political policy decisions by the mechanism known as democratic centralism in order to rise to all challenges and crises (tackling the Asian financial turmoil is a successful case in point).

Third, China should develop a civil society and integrate different interest groups. In taking policy decisions, there should be tolerance of differences of views; the expression and balancing of different interests; handling well the relations of interest groups in cities and the countryside; providing equitable public services to both people with and without household registration (farmer-workers); helping minority groups improve development capacity and increase investment in human capital and protecting the cultures of different ethnic groups. It is very difficult for a society with more than one billion people in 56 ethnic groups to achieve a harmonious, equal and united civil society. There has been not one successful case so far. It requires exploration and innovation.

Just as the subtitle of this book says, China is on its way in a long march towards prosperity. As early as in March 1949, Mao Zedong pointed out that 'To win countrywide victory is only the first step in a long march of ten thousand *li*.'[7] In 1962, he said that it was not possible for China to make itself a powerful socialist country, say, in 50 years; it may require 100 years or even longer,[8] as he already realized that China had a large population; it had little to start out with and the economy was lagging behind. To realize the grand goal, therefore, means a long march. In 1987, Deng Xiaoping visualized a three-step strategy (1980–2050), that is, to achieve the level of a middle-developed country by 2050. This is another long march toward prosperity.[9] China is now in the middle of the long march and there is still a long way to go. But we are more confident than ever before in our strength to attain the goal, which should be consistent in leading the way in our long march – a march toward modernization (1940–present).

# Preface and acknowledgements

Analyzing post-Mao China is not an easy task. It is nevertheless an essential and indispensable one for any scholar who wants to understand the rationale and scope of the reform process started by the Chinese leadership under the guidance of Deng Xiaoping since the end of the 1970s. Apart from a purely academic interest, the reason for this is quite simple: 30 years after the beginning of the reform process, China has become a major actor in the global economic and political system. Some forecasts predict that China will become the major power in the course of the twenty-first century. When this will happen is only a matter of time, and for some observers of Chinese society this may happen sooner than many Western people can imagine.

Many books and articles have been published in the West since 1949 about the People's Republic of China, and many more as we were approaching the 30th anniversary of the beginning of the reform era. There is no doubt that many excellent Western experts of Chinese culture, society, economy, and politics have made many important contributions to the understanding of the unbelievable changes that have occurred in this country since 1978. The problem is that most of these writings deal either with a very general overview of these events, or with some specialized aspects, mainly related to the development of the Chinese economic system.[1] My purpose is not to add another contribution to either of these, but to present a more balanced picture dealing, as far as possible, with the major aspects of the reform process: economic, social, environmental, legal, political, and cultural; and show the interconnections between them. This is of course a long-term project.

In this book I present a preliminary but substantial summary of the major findings of my research that are in my opinion necessary in order to understand the reform process, its rationale, the achievements realized so far, as well as the difficulties the Chinese leadership will have to face in the years to come. To attain this goal, it has been necessary to make some difficult choices; that is, to insist on what I consider to be the more important aspects, and to briefly mention the others. This is of course a strategy that may not satisfy the specialists who have analyzed China's reforms from the point of view of a single discipline such as economics or law. But my purpose is to propose an explanation that cuts across disciplines. In fact, one of the major findings of my research is that one can grasp the rationale, strategy and outcomes of China's reforms only by assuming a multidisciplinary

approach. This led me to first devote an important space to the analysis of the changes in the political culture of the Chinese leadership.

As I explain in the first chapter, reforms would not have been possible without a strategic change of some of the fundamental values of Chinese political culture, but without at the same time totally abandoning the values of Mao's era. These changes could only have been realized by an extraordinarily skilful strategist such as Deng Xiaoping. The second choice I made (which is closely linked to the first) was to explain the development strategy followed by Deng Xiaoping after the end of the Cultural Revolution (1976). Then, I chose to analyze the positive and less positive outcomes of this strategy during the Deng Xiaoping and Jiang Zemin era (1978–2002); to evaluate the policies set up by China to correct the negative consequences of economic development (1995–2008); and finally to discover the changes introduced within the political system, especially during the Hu Jintao era (2002–8).

Given the availability of a vast literature on the success of the economic development of China by both Chinese and Western scholars, and considering that these aspects are today well-known to both academics and the general public, I chose to simply summarize the major aspects of the economic dimension of reforms. Then, while presenting a general picture of the negative consequences and problems arising from Deng's development strategy (including the impact of the economy on the environment) I nevertheless chose to insist more particularly upon the rise of inequalities and the consequences of the collapse of the old social security system based upon the social role played by State-owned enterprises (SOEs) within the planned economy. Finally, I chose to deal with the legal aspects of reforms only insofar as they are essential in order to understand the difficulties that the Chinese leadership had (and still has) to overcome if it wants to establish a formal system capable of sustaining the development of the economy (for example by giving sufficient legal security to the economic activities of the private sector) while realizing one of the major objectives of the Chinese leadership; that is, social and political stability.[2]

In writing this book, I have tried to avoid a too technical approach. While I will address the results of my research to an academic audience, I will present them in a form accessible to a wider public. The choice of this 'intermediate' approach stems from the fact that too many unbalanced accounts on China are being published both in academic writings and in newspapers and magazines accessible to the general public. My aim is to present here a documented view of the Chinese situation, avoiding the catastrophic predictions of some people,[3] as well as the over-optimistic views of those who see China as a territory to be conquered, which is in fact the view of many Western businessmen.[4]

The idea of writing this book is rooted back in the years when I studied Chinese history at the Graduate Institute of International Studies in Geneva. Those were the years of the New China under Mao leadership that have impressed many Western intellectuals. Since then, after being appointed professor of public administration and management at Geneva University, I have been involved in the study of the changes in the management of Western societies, up to the spring of 1997, when

I was entrusted with the management of the second phase of the 'Sino–Swiss Management Training Programme in the Public Sector of China'. That was the right time to return to China, but this time not in the books and academic articles, but in the field. This programme, a joint venture between the Chinese and the Swiss governments, lasted from 1997 to 2003, with the aim of training more than 400 Chinese senior civil servants and senior cadres of the Party organization in the modern tools of public management. These cadres were trained in China, Switzerland, France and the United Kingdom, through seminars given by international European experts coming from both public training centres (such as the French 'Ecole Nationale d'Administration' in Paris, and the British 'Civil Service College' in Sunningdale) as well as from major public administration, national and multinational companies in these three European countries.[5] In addition, the Sino–Swiss Programme organized visits to these institutions that gave the participants the opportunity to interact with the European experts on the premises of their organizations, and not only in academic meeting rooms. It has been for me a unique opportunity to be introduced to the reform process in China, either by discussing with our correspondents in Beijing (who reported directly to the Department of Organization of the Communist Party of China), or by following almost all the seminars and listening to the questions and remarks put forward by the Chinese participants, and by discussion with them.[6] Moreover, I had the opportunity to visit China more than 20 times, traveling to several provinces, including the less developed ones such as Gansu, Qinghai, Sichuan, Yunnan, and Shaanxi.

This programme has given me the opportunity to meet not only dozens of Chinese cadres from the central Party–State, but also from all the provinces, and several municipalities. Little by little a new image of China and the Chinese people emerged thanks to these contacts: less uniform (than that portrayed by Western media) and more complex, but at the same time more comprehensible, less frightening, and more fascinating. Finally, a kind of empathy has developed, even if my academic training has helped me not to fall either into the childish admiration that too many Westerners have developed in recent years (over-impressed as they are by the spectacular development of the Chinese GDP) or into an oversimplified criticism of those who see China as a giant with feet of clay that will inevitably collapse sooner or later. Fortunately, I also had the opportunity to meet several Chinese intellectuals, who, while supporting their government in the process of economic development, have nevertheless pointed out the negative consequences of the type of development strategy chosen after the end of the Cultural Revolution.

My task would have been impossible without the help of these Chinese scholars doing research within the fast-developing Chinese academic system. My deepest thanks go first of all to one of the most influential Chinese economists, Hu Angang, founder and director of the China Research Centre at Tsinghua University in Beijing, who shared with me his views on the reforms strategy of his country during a decade-long relationship. Thanks to him I gained access to other Chinese scholars, and was able to conduct several informal interviews, that gave me a deeper insight into the rapidly changing Chinese society, economy, and polity. To mention all those who helped me with the completion of this book would run the

risk of forgetting some of them. But let me at least mention my other colleagues of the School of Public Policy and Management of Tsingua University: Cui Zhiyuan, Cheng Wenhao, Yang Yansui, Qi Ye, Liu Qiushi, Wang Youqiang, Wang Yongheng, and Zhang Wankuan. And also the other colleagues of Tsinghua: Dean Li Xiguang and Nailene Chou Wiest, both of the School of Journalism; LI Jiang, Dean of the Faculty of Sociology; and Cheng Jie, Law Faculty; Bai Chong'en, Dean of the Faculty of Economics. I also benefited from another source of precious information thanks to a well-established cooperation with the School of Public Administration of Renmin University, also in Beijing, and more particularly with Dong Keyong, Dean of the School; Li, Shaoguang, director of the Department of Social Security; Qin Huimin, director of the Institute of Education and Chair of the Council of the School; Wang Hufeng; Hu Ping; and Huang Behong. Finally, I also benefited from several discussions with members of the National Development and Reform Commission (NDRC), and especially Chen Dongqi, Song Li, Chang Xiuze, and Chang Zuo Chuan. Professor Zhou Yuan of the Ministry of Science & Technology helped me to understand the importance of the development of science and technology in China. To these colleagues I owe an immense gratitude for having comforted me in my understanding of China and having encouraged me to write this book.

My Chinese assistants at the University of Geneva helped me with the seminar on 'The reforms in China': Wang Jialu (1998–2003), Wang Fang (2003–4), and Yan Ran and Yuan Ying (2004–5). Many students (the great majority of Western culture, but also some Asian and a few Chinese) attended the seminar which gained more and more interest among the students of Geneva University, especially when it was introduced into the programme of the newly established Master in Asian Studies (2003). Many of them have written several well-documented seminar papers and Master dissertations of such an outstanding quality, that I felt no shame in using part of them for this book. It goes without saying that they will be duly quoted. Moreover Nina Wen and Wang Fang helped me with the difficult task of setting up the training programme for Chinese senior cadres (the Sino–Swiss Management Training Programme mentioned above). All these young scholars are Chinese nationals from mainland China with a good knowledge and experience of Western culture. Jean-Paul Bari (a Swiss national), the late Doreen Demilly (a dual British–French national), Adrian Strittmatter (a dual Swiss–British national) and Valérie Milleret (a French national) completed my intercultural team. Working with them helped me to understand the similarities, but also the differences, between the Western and the Chinese cultures, not only through continuous discussions, but also in the day-to-day work of planning, organizing, and implementing seminars for both young students and senior cadres. I was also fortunate enough to be the supervisor of two young scholars who spent a year at the University of Southern Switzerland (where I teach a course on institutional communication) thanks to a grant of the Chinese Government. Xing Yuan (from the Tianjin Municipality) studied in 2006–7 the Swiss and European University systems and helped me in my understanding of the Chinese academic system. Liu Dehao (from Remin University) worked on his PhD dissertation on Chinese social security in 2007–8,

whilst getting acquainted with European social security systems, and helped me to better understand the reforms of the Chinese social security system, and has provided an important input into the third chapter.

As for the contribution to this book by Western scholars, I mainly used their published works, most of which are quoted in the following pages. But let me mention more especially two Swiss sinologists: Nicolas Zufferey, Professor of Chinese language and culture, co-founder of the Master in Asian Studies, University of Geneva; and Antoine Kernen (University of Lausanne and Geneva Graduate Institute of Development Studies), with whom I had numerous discussions about the changes China has experienced in recent years.

Last but not least, I thank my wife, Madeleine — a double British and Swiss National — not only for her invaluable help in the difficult task of putting my English prose into a form readily understandable to an international reader, but also for her patience and understanding throughout the years necessary to bring this book to fruition.

It goes without saying that I owe a considerable debt to all the abovementioned persons, and this is translated into the great number of references. But of course, I am the only one to be responsible for errors, omissions, and interpretations that will inevitably appear in the following pages. The sinologists will certainly evaluate my contribution to its merits. But I would like to warn the layperson against an overestimate of the findings exposed in this book by paraphrasing one of the most inspiring Western scholars: 'obviously, the sinologist will not find in this book any new facts. I only wish that he [sic] may discover nothing important which is false'.[7]

Before I briefly present the chapters of this book, let me explain its title. At the end of the Mao era, and especially after the Cultural Revolution, Chinese society was in a poor state: the Communist Party, that led the country to the 1949 revolution and that, after a century of humiliations, was able to give the Chinese people a renewed faith in their future, had lost its reputation. The state had shown its incapacity to peacefully regulate tensions and conflicts within polity and society. And in spite of Mao's goal to develop the economy and catch up with Western countries, the standard of living of Chinese families had fallen behind the level attained before the Cultural Revolution. It looked as if state, the Party, economy and society (i.e. people) had been disconnected from each other, or worse, that they had been put in a kind of permanent contradiction of each other. This was an extremely dangerous situation that could have drawn the People's Republic of China toward further conflict and disorder, and eventually to a final collapse. To avoid this tragic outcome, it was necessary to reconstruct, and, as history never repeats itself, to reinvent Chinese society, state, and economy; in other words to find means to reconcile state, market, and society. This is what Deng Xiaoping and his successors have tried to do after 1976, and this is what this book tries to understand and explain.

In the first chapter I will deal with the Chinese political culture, as I am convinced that it is impossible to understand China's reforms without taking into consideration the fundamental values and beliefs upon which power has been

legitimized during the centuries. In doing this I will try to show what elements of the Chinese political culture inherited from the Imperial past are still operating today and what new beliefs have emerged during the process of change that started already toward the end of the Empire and developed during the first and second republics.

The second chapter will analyze the rationale of the reforms set up during the Deng Xiaoping era, the positive outcomes (mainly the spectacular development of the economy measured by GDP, the eradication of poverty, and the emergence of a middle class), but also the less positive outcomes by insisting on the development of huge disparities between provinces, as well as inside provinces and municipalities.

The third chapter will deal with the new policies set up to correct the negative consequences of the economic development strategy of the 1980s and the first part of the 1990s in the domains of rebalancing of the economy between provinces and regions, and will insist more particularly upon the setting up of new safety nets, mainly for old age, health, and unemployment.

The fourth chapter is a tentative explanation and evaluation of the reform process, based upon a model of power I have developed elsewhere.[8] In particular, I will examine the changes introduced into the political system, with special reference to the decision-making process. This chapter will also be the occasion for evaluating the validity of the dominant Western thesis according to which China must finally adopt a political and a legal system similar to the Western one if she wants to develop an economic system based upon market mechanisms, which is the condition *sine qua non* for establishing a harmonious and prosperous society. I will show that the changes implied by this thesis (that may be rather appealing to Western minds, but maybe also to some Chinese people) are by no means the necessary outcome of the reform process. China may very well find its own way of managing and organizing a modern society. Instead of preaching for the transformation of China according to the Western model, I will instead show that some of the features of the Chinese political culture may still today constitute a barrier to the complete success of the reform process. And these problems may constitute a formidable set of challenges that I draw to the attention of my Chinese readers. The problems are there, and they are being recognized by several Chinese scholars. It is up to the Chinese leadership to find answers to these challenges.

In organizing the four chapters, I tried to present them according to a sequence that should make the reading as easy as possible: (1) in chapter 1 I start with the analysis of Chinese culture in order to understand the fundamental values of Chinese society that orient behaviour in the public domain, (2) in chapter 2 I present the rationale of Deng's reforms and their impact on Chinese society, (3) in chapter 3 I present the policies adopted by the Chinese Government in order to correct the negative consequences of the reforms, and (4) in chapter 4 I propose an interpretation of the structure and functioning of Chinese power today. As all the dimensions dealt with in the four chapters are linked to each other within a kind of structural interdependency, there will be many cross references that have made repetitions necessary. The sinologist may find this way of presenting my argument

rather tedious. My purpose in doing so was to facilitate the reading for laypeople, so that each chapter may stand on its own. Each chapter can be read independently of the others, and should the reader wish to find more detailed explanations, he or she may refer to the other chapters as suggested in the text.

# Abbreviations

| | |
|---|---|
| ABC | Agricultural Bank of China |
| ACFTU | All-China Federation of Trade Unions |
| ASM | Asset Management Company |
| BOC | Bank of China |
| CAS | Chinese Academy of Sciences |
| CCB | China Construction Bank |
| CDM | Clean Development Mechanism |
| CEEC | Centre of Communication and of Environmental Education |
| CPC | Communist Party of China |
| CPPCC | Chinese People's Political Consultative Conference |
| CSRC | China Securities Regulation Commission |
| DC-PAYG | Defined contribution pay-as-you-go pension system |
| ECMI | Europe China Management Improvement Foundation |
| EEI | Environmental Educator's Initiative |
| FDI | Foreign Direct Investments |
| GDP | Gross Domestic Product |
| HDI | Human Development Index |
| ICBC | Industrial and Commercial Bank of China |
| IPD | Implicit Pension Debt |
| MoF | Ministry of Finance |
| MoH | Ministry of Health |
| MoLSS | Ministry of Labour and Social Security |
| NAO | National Audit Office |
| NPC | National People's Congress |
| NDC | Nominal defined contribution |
| NDRC | National Development and Reform Commission |
| NGOs | Non-government organizations |
| NPL | Non-performing loans |
| NPM | New Public Management |
| NSSF | National Social Security Fund |
| OECD | Organisation for Economic Cooperation and Development |
| PAYG | Pay-as-you-go |
| PEP | People's Education Press |

| | |
|---|---|
| PRC | People's Republic of China |
| R&D | Research and Development |
| SASAC | State Assets Supervision and Administration Commission |
| SEPA | State Environmental Protection Agency |
| SMEs | Small and medium size enterprises |
| SOEs | State-owned enterprises |
| UNDP | United Nations Development Programme |
| UNFCCC | United Nations Framework Convention on Climate Change |
| WTO | World Trade Organization |
| WWF | World Wildlife Fund |
| Yuan | Chinese currency, also called Renminbi (RMB) |

# 1 Chinese political culture and why it does matter

## 1 Comparing Chinese and Western cultures

### *1.1 Is Chinese culture fundamentally different from Western culture?*

On 24 September 1984 Bo Yang gave a conference at Iowa University that was to become 8 years later a chapter of a book entitled 'The Ugly Chinaman and the Crisis of Chinese Culture'.[1] But prior to the English translation, an anthology of articles about the Ugly Chinaman by Bo Yang and others, originally published in Chinese in Taiwan, was translated into Japanese and Korean, and in 1986 five different Chinese editions were published in mainland China. Many Chinese people and intellectuals were shocked by the book, and several sharp criticisms were published in China and abroad, some of which are reproduced in the English translation of the book. In fact Bo Yang had drawn a terrifying picture of the traditional Chinese culture, that he qualifies as the 'soy past vat' culture: filth, sloppiness, noisiness; quarrelling, squabbling amongst themselves; Chinese do not understand the importance of cooperation; a reluctance to admit errors; Chinese are addicted to bragging, boasting, lying, equivocating, and, worst, slandering others; lack of tolerance for others; chronic inferiority complexes, but also overbearing arrogance; and Chinese are divided into two categories: those with a chronic inferiority complex (i.e. slaves) and those with a superiority complex (i.e. tyrants). Moreover, Bo Yang's comparison with the American culture is systematically in favour of the latter. And by reading Bo Yang's descriptions of the two cultures one could do nothing but accept the thesis of many Western sinologists; that is, Chinese culture is fundamentally different from Western culture, and even more, it is fundamentally unintelligible for foreigners.

Nevertheless, one who is well acquainted with other cultures can easily find the same 'ugly' cultural characteristics everywhere in the world. For example, Bo Yang considers that Chinese people speak too loudly in public places such as restaurants whereas Americans do not; the ugly Chinaman would not hold the door for the person behind him whereas the American would. In fact the writer, who is European, can attribute these same ugly traits to the American culture: I have rarely seen an American holding the door for people coming behind him/her, and in restaurants I have very often been unable to have a conversation with my guests, due to the extremely noisy behaviour of the American customers. Even

within Europe, some Europeans would find that other Europeans present some ugly cultural traits. I am sure that many Swiss people think that the French and Italians speak too loudly in public places. And I am sure that Americans can easily see some ugliness in the culture of their European cousins. And coming back to China, during my numerous stays in this country I have met some Chinese people (and more often than not amongst public officials) who, in spite of a superficial polite behaviour, turned out to be quite arrogant, one of the most remarkable manifestations of ugliness, not to mention a considerable propensity to equivocating and lying. But I also met a considerably larger number of Chinese people (and officials) who were polite, honest, respectful of different customs, reliable, helpful to the foreigner, easygoing, and modest. All this drives me to conclude that within any country there exist people with some ugly cultural traits. The only thing that seems plausible is that some ugly cultural traits are proportionally more present during some historical periods than others. It is my opinion that this is the message that Bo Yang wanted to transmit to his compatriots: the destructive elements of traditional Chinese culture have increased the number of ugly Chinamen; it is time to get rid of those traits and to forge a new Chinaman.

In fact Bo Yang, whose intention was to 'shock his compatriots into self-understanding', was criticizing the traditional Chinese culture and certainly not the new culture that was emerging in the 1980s when the book was published in China: 'Ages ago, all the ethical tendencies and native wisdom of the Chinese people were crushed by the destructive elements of Confucian culture and despotic government'.[2] True, Bo Yang is also very critical of the Maoist period, but on the one hand, mistakes made by Mao have been recognized by the Communist Party of China (CPC),[3] and, on the other, in 1984 the reforms introduced by Deng Xiaoping were just starting to produce the changes that we can now more easily acknowledge. Bo Yang himself recognizes that: 'the rusty fetters of traditional Chinese Culture cannot be discarded so easily. It will take the re-establishment of a market economy, the institutions of a democratic system of government, and a long period of political and economic stability before the Chinese people can begin to live normal, healthy lives.'[4] Twenty-five years after the Iowa conference, it seems that all the changes called for by Bo Yang are on the right track: market mechanisms have been established to a large extent, political and economic stability has been assured, the decision-making process has become more open, elections are organized at the village level. Of course, the present picture of Chinese society is not entirely positive. Contradictions have appeared, disparities have developed between regions, provinces, rural and urban areas, as well as within provinces and towns; environmental pollution is threatening not only the physical environment, but also health. All these phenomena constitute some formidable threats to economic sustainable development, as well as to social, economic, and political stability.[5] Our task will be to take stock of the changes introduced since 1978, and try to evaluate their impact on Chinese society and, as far as culture is concerned, to find out what traits of the traditional culture are still present, what is their role in present-day China, and what are the new cultural traits that have emerged since 1978.

It is possible to draw another interesting conclusion from the considerations developed so far. If the same positive and negative cultural traits are present in any culture, though their strength has been different in space and time, by analyzing the similarities and differences as they have developed throughout history it should be possible to understand Chinese culture, even if this will necessitate a considerable intellectual effort. Moreover, even if for a long period of time Chinese culture has developed in different ways as compared to the West, there is no reason to assume that the two cultures will inevitably develop in fundamentally divergent directions. In fact, whereas it is interesting to find out, through historical enquiry, what have been the processes and the choices that have led Europe and China to present considerable societal differences toward the middle of the nineteenth century, it would be a mistake to consider that the fundamental values that have emerged in the two cultures have been the only ones that have been analyzed and discussed before their adoption and implementation as the dominant values in each of the two cultures. As has been very well argued by the Swiss sinologist Jean François Billeter, there are too many similarities in history between China and Europe, as well as in the development of scientific discourse (especially in philosophy) and in social organization, for accepting the thesis of a fundamental and everlasting cultural difference between these two cultures. The present Western discourse on human rights and liberal democracy too often tends to forget, especially when it takes the form of a top-down lesson of good governance, that Western history is full of periods of authoritarianism, tyranny and atrocious violations of human rights, as Billeter shows in his critique of François Jullien, the well-known French sinologist affirming the fundamental difference between Western and Chinese cultures.[6] It is not my intention to take position in this controversy amongst some of the best Western sinologists very well acquainted with both Chinese and Western philosophies, literatures and history.[7] As I shall show in this book, I will rather take the position of the Western political scientist who tries to discover the similarities and differences between these two great civilizations at the beginning of the twenty-first century. Moreover, the controversy between the defenders of Billeter and Jullien has been expressed in such an aggressive tone, that in spite of the interest of the arguments put forward by the two camps, I prefer to take the road of the sceptic political scientist who prefers to build his opinion upon some solid empirical evidence sustained by robust theoretical frameworks. In this context, the work of another Swiss sinologist, Nicolas Zufferey, seems to be more in line with my position, as his book constitutes, amongst other interesting developments, a stimulating analysis of the similarities and differences existing between the Western and Chinese philosophies.[8]

Nevertheless, I should say that I share the view of Billeter when he says that François Jullien

> forgets that monarchies, absolute monarchy, despotism, tyranny, dictatorship, and totalitarianism, have played a considerable role in European history; that these forms of power have sometimes been accepted and justified, sometimes judged, criticized, analyzed through the centuries and this gives us a very rich

> historical material for building similarities with the political, moral and intellectual history of China. […] he forgets the history of democracy in Europe, the number of obstacles it has been necessary to overcome in order to establish it, […], not to speak of the battles it should be necessary to fight today so that it will not be destroyed by economic power, and to be able on the contrary to triumph over it. Is it not true that there has been in Europe a slow, difficult conversion [to democracy and the supremacy of polity over economy — my remark] and that it remains unaccomplished? How is it possible not to see that this process is also on its way in China today …?[9]

And I may also add: how is it possible not to see, that in spite of Western criticism of China's human rights and democracy, politics is in command over economy in China? And that this way of managing the country is guiding today the several policies aimed at reducing the contradictions and disparities created by the market economy?[10] China is evolving today toward ways of organizing its society that are not, in many respects, fundamentally different from the West: a market economy has emerged, a legal system is being developed, and science and technology have developed to reach international standards. This is not to say that China will have to imitate the West. On the contrary it is likely that it will develop its social system by safeguarding the Chinese characteristics that it will choose to keep.[11] This position is not fundamentally different from that adopted by European countries after the Liberal Revolution that introduced a new political system alongside the market economy. Democracy and market are two ideal types, in the Weberian sense of the concept: rational utopias, and not empirical representations of reality. Starting from and building on these utopias Western countries have each interpreted democracy and market according to their own history, values and fundamental choices.[12] Although there is a common set of fundamental values at the heart of democracy and market, each country has developed its own form of democracy and of market economy, as well as its own welfare system.[13] There is no reason why China could not do the same. Of course there are some very powerful forces that are guiding the process of globalization in the direction chosen by the most powerful country in the world, the United States of America. But globalization is changing the geopolitical equilibrium. New countries are emerging in the international arena: China, India, Russia and Brazil, along with the emerging New Europe (the European Union).[14] New rules of the international game both in the economy and polity will have to be developed and accepted by all the major world players.[15] The recent failure (July 2008) of the global trade talks in Geneva illustrates this point. In the framework of the Doha negotiations a nine-day meeting in Geneva (the longest trade summit I can recall) was held with the purpose of concluding a simple bargain: the European Union and the US would lower farm subsidies and tariffs in exchange for China, India, Brazil and other emerging economies opening up their markets for industrial goods such as chemicals and cars. The refusal of India and China to compromise put an end to the discussion. The disappointment was so high, that several diplomats considered that the Doha rounds' constant failures might have spelled the end of big multinational trade deals.[16]

This is a clear sign that in the future trade negotiations will have to take into consideration, more so than in the past, the interests of the new global players, and that the latter can resist pressures from developed countries. China will certainly have an important role to play in this context. And there is no reason why some Chinese cultural traits will not contribute to orienting this process: China will again play the role of transmitting its cultural genius and wisdom to the rest of the world.[17]

### *1.2 The importance of political culture for understanding post-Mao reforms*

I would like to be very clear at this point of our journey into contemporary China: I will not develop a culturalist approach. Taking culture as one of the keys for understanding China is not to say that culture can explain everything, but that it would be a mistake to leave aside this source of information and of understanding. In the last chapter of this book, I will develop a systemic approach for the analysis of contemporary China. Culture will be just a part of the theoretical and methodological approach, though an important one. Here I would like to explain in more detail why I think that bringing culture into the picture is important to our understanding of the current development of Chinese society. Moreover, I will take into consideration only the cultural traits that are pertinent to understanding the political process of China's reforms; that is, its political culture.

The theoretical base which explains the need to refer to the political culture in order to understand contemporary China and the process of reform set up since 1978 is to be sought in the work devoted to political culture and ideology, which poses the assumption of a significant impact of culture on individual and collective behaviours. I explained elsewhere the interest that there is in using the approach of political culture in order to understand the structuring of power in Western countries.[18] But the interest in applying this approach to contemporary China is made even more obvious by the controversy which has long animated the discussions amongst Western sinologists as to the specificity of the Chinese culture compared to the Western culture.[19] The enlightening analyses of François Billeter confirmed our aim; that is, the attempt to compare the Western and Chinese political cultures, with the aim of identifying the differences, certainly, but also the similarities. Moreover, it would be useless to seek to understand contemporary China only on the basis of what exists today. Just like it is necessary to go back to European antiquity (namely to Greek-Roman antiquity) to understand Western civilization and the forms of government which she adopted throughout her history, it is quite as essential to retrace in the history of China the origins of its current political culture, with an aim of discovering what remains today of the past, beside what has emerged these last years. Mao himself would have said: 'not only should we understand today's China, but also yesterday's China's and the day before yesterday'.[20]

At first approximation one can define political culture as a subset of the social culture, just like the political system can be defined like a subset of the social system. Social culture can be defined as the whole set of attitudes and orientations of the individuals with regard to social objects. Anchored both in the social

history and in the history of the individuals, social culture constitutes to some extent the support which directs behaviours within the framework of the social system. 'Political culture is the pattern of individual orientations toward politics among the members of a political system. It is the subjective realm which underlies and gives meaning to political actions.'[21] In a more precise way, political culture 'refers to the specifically political orientations — attitudes toward the political system and its various parts, attitudes toward the role of the self in the system'.[22] In an even more precise way, and perhaps more restrictively, Lucian Pye, one of the most interesting American sinologists, defines political culture as the whole set of the attitudes, beliefs and feelings, which gives an order and a significance to the political process, and which defines the underlying postulates as well as the norms which guide the behaviour in the political system. It includes as well the political ideals and operating norms of the political system.[23] The new and restrictive element of this definition is introduced by the terms 'order' and 'significance', whose aim seems to be to confer to political culture a role of rationalization of the whole of the representations that the individual has of the political system and of its components (including himself/herself). This definition quite naturally leads us to take into account the relationship between political culture and ideology.[24]

If we start from the definitions given by Marx in 'The German Ideology' and the 'Critique of the Political Economy', it seems that the concept of ideology corresponds to the concept of social culture.[25] However, another passage of 'The German Ideology' shows clearly that what interests Marx is the function of ideology in the polity, where, as a dominant ideology, it contributes to perpetuating the modes of production and political domination of the dominant class.[26] In this sense, ideology would be about equivalent to political culture.[27] As, since the introduction of the People's Republic in 1949, China is, according to its leaders, in a situation of transition toward a socialist society, and thus it is not yet a classless society, the concept of ideology of Marx (more particularly the concept of dominant ideology) has for us the same theoretical function as the concept of political culture, namely a role of legitimization of the power structure in place.[28] This being posed, thereafter I will use the concept of political culture as a synonym of ideology.

As for the content and the function of political culture in the political system, one can first of all consider that there are three components or dimensions of the political culture: cognitive orientations; affective orientations; and evaluative orientations.[29] However, it seems to me that to understand the affective dimension and, especially the evaluative one, it is necessary to know the model according to which the individual determines the direction and the intensity of his affectivity and his evaluation with regard to the political system. It is thus necessary to add a fourth dimension of the political culture, which I call 'normative dimension'. One can then define the objects of these orientations: the political system as a whole; components of the political system, that is, specific roles and structures, the people who occupy the roles; policies, decision making, implementation, and evaluation; and finally, the perception with regard to self in the political system.

Moreover, the distribution of political culture is not necessarily uniform in a given society. On the contrary, there can be inside a society social sub-groups,

each one bearing a specific political subculture.[30] And, I add, there could be, in specific historical cases, the emergence of a new class or social group developing a political culture different from that of the traditional elites. The questions which one can then ask regarding contemporary China are primarily the following ones. First of all, through what intellectual means (in addition to material resources) the new elite which seized power in 1949 has succeeded in imposing its own values? Second, what is the difference between the political culture of this new elite and the political culture of the Imperial era? Third, how does the political culture of the new economic elite that emerged at the time of reforms after 1978 fit in the ideology of the Party–State?

If one further develops the last question, one can ask whether the new economic elite will develop a different political culture (that could even be in opposition to that of the Party–State), or on the contrary, whether it is the latter which will have to change its fundamental values in order to be in harmony with the values of the new economic elite, or even more likely, whether it is the change of values of the Party–State's elite (converted to the benefits of the market economy) which allowed and favoured the rise of the new economic elite.[31] In this last case, there would be no fundamental opposition between these two elites, and one could even advance the hypothesis that China may evolve toward the same type of relationships which exist in Western countries between a liberal economic elite and a political party, or even several political parties located on a left–right axis, but each one being more or less converted to the benefits of the market economy. The only differences between economic elite and these political parties is one of degree rather than of nature, bearing on the more or less interventionist role of the state, the international economic relations, those legislations having an impact on the market economy, in particular fiscal and environmental policies, as well as the level of employers' contributions to social security.[32]

As the hypothesis of the emergence in China of partisan pluralism similar to the Western model is not very realistic in the near future, a substantial difference between China and Western countries would nevertheless persist. In China the oppositions inside the political elite would be in fact oppositions between the various factions within the Party, whereas in the West oppositions and conflicts exist between parties and interest groups, without obviously excluding the divergences between the factions inside these various organizations. One could then consider that these differences are rather of degree than of nature.[33] Even if it is true that single parties are not as monolithic as many people too often think they are, I am nevertheless convinced that this interpretation is not satisfactory, because it leaves completely aside the essence of the difference between mono-party and multi-party systems. Debates between factions inside single parties are generally carried out inside the party, largely sheltered from public scrutiny, whereas multi-party systems present an opening significantly larger toward civil society, thanks to the freedoms of press and association, which make it possible (and inevitable) to lead much of the political debate in the open, as well as to the organization of competitive elections between the various parties. For these reasons the difference is for me one of nature and not of degree.

This leads me to consider the link between political socialization and political culture. It is indeed through the processes of socialization that society, and inside it the various socialization agents, transmit to the individuals the values, the beliefs, and the norms of behaviour which constitute the culture or subcultures.[34] If one starts from the hypothesis that a society is subdivided into several social groups, one can ask the question whether each of these groups possesses its own means of socialization or whether a group has sufficient means of socialization enabling it to use them to transmit its own culture to all the other social groups. In the case of contemporary China, one is thus lead to wonder through what instruments of socialization the CPC transmits to the rest of society its political culture, and how and to what extent, thanks to these means, it succeeds amongst other things to ensure the social cohesion necessary to the stability and the development of the country. One would thus be tempted to consider that the means and the modes of transmission of the political culture are specific to the elite in power at a given moment, and consequently to carry out an analysis of the content of this political culture and of the modes of action of the CPC, without worrying too much about the legacy of the past. Contrary to this point of view, one can put forward the assumption that the political culture is the result of a very complex historical process, which creates, selects, gives up, invents and reinvents the elements of the political culture. The passage of one political culture to another political culture is thus not a simple phenomenon, where at a given historical moment all the legacy of the past is destroyed and completely replaced by new values and beliefs.

More probably, we have a succession of phases: a political culture dominates at one historical moment and for a certain time, then declines gradually[35] under the thrust of new values, but without losing its force completely, succeeding in imposing itself in certain cases, perhaps even integrating some of its features into the new system of values and eventually constituting a new hybrid culture;[36] during a next phase the new values can possibly relegate the traditional ones to an unimportant marginal role. One generally considers that in the West the transition from monarchical power to the democratic power represented a radical change both from the point of view of the means and modes of transmission of the political culture as from its contents. Besides, the fact that this change has been a progressive one (in spite of the 'revolutionary' character of its beginnings) I am convinced that it would be theoretically hazardous to consider that this historical case is valid in all historical circumstances as a model of transition from one political culture to another. Unfortunately, it is this that numerous Western sinologists propose in order to interpret the development of Chinese society after the collapse of the Empire: it was inevitable that China would undergo a radical and comprehensive change of the means and modes of transmissions of the political culture, as well as its contents. This opinion is generally founded by taking into consideration the changes introduced since 1978 into the economic system: from the moment China chose a market economy and opened its economy with the rest of the world, it would inevitably transform itself into a democratic system, based on the rule of law, the separation of powers, political competition, and thus a form of multi-party system and free elections; otherwise it would inevitably collapse.[37] If one cannot

obviously exclude, at least in the long run, the realization of this hypothesis, it is as interesting to formulate the opposite hypothesis: certain features of the Imperial power and the political culture that has been its ideological support (set up and developed during two millennia), would persist still today and would tend to persist in the future, at least in the short and medium run; and the new political culture, integrating traditional and new values, could very well contribute to the stability of the regime.[38]

## 2 Chinese political culture: past and present

In this section I will propose a brief survey of Chinese culture with the purpose of identifying its fundamental features, and to stress the ones which are still present today in post-Mao China, and which orient the behaviours in the economy, polity and society.

To analyze the development of the political culture of China is an endeavour which largely exceeds the framework of this work. Nevertheless (and I have already strongly underlined this) it is essential to try at least to determine the essence of it in order to give an answer to the hypothesis suggested previously about the permanence at the present time of certain traditional features of the Chinese political culture and of the means through which they are transmitted. The work of Jiang Ping on the relationship between administration and politics during Chinese history convinced me that the first way of carrying out this analysis consists in focusing on the history of the relationship between these two entities.[39] While proceeding in this way, one realizes indeed that in the transition from Imperial power to the communist power, and the intermediary power of the Kuomintang, it is ideology which has been and remains today the base of the power and the functioning of the state. Moreover one discovers that these relationships perfectly account at least for two major features of the Chinese political system: concentration of power and government by men. Nevertheless this is not enough to account for the changes introduced into the official ideology after the end of the Maoist era, when Deng Xiaoping started to put into practice his famous statement about the colour of the cat: 'It does not matter whether the cat is black or white, provided it catches the mice'. By this slogan, Deng intended to implement another famous slogan that was to become one of the main features orienting Chinese politics and policy making after 1978: 'seeking truth from facts'. In practice the first consequence of this new way of thinking has been the recognition of the superior efficiency of market mechanisms over command economy. And this clearly needed some changes in the ideological apparatus of the CPC. If our analysis is to confirm these changes, then the last task will be to determine whether there are contradictions between the elements of the ideology of the Mao era (which still persist today) and the new elements introduced during the Deng era.

But let us start with the examination of the relationship between administration and politics. In the Western liberal tradition, the distinction between political and administrative functions is generally an admitted feature of the way of governing Western countries, both in theory and in practice, even if this distinction has never

been implemented with absolute rigour. Nevertheless, it is quite a real one in the West.[40] Moreover, if one adds to it the separation of powers, political pluralism and the guarantee of fundamental freedoms, we have the essence of the solution Western democracies invented to deal with the challenges posed by three closely interdependent revolutions: the Scientific Revolution, the Industrial Revolution and the Liberal Revolution. These revolutions required institutions able to manage the relationship between economy, state and society, while guaranteeing the economic development and social and political stability. In China, throughout the Empire and until our days, the concentration of powers does not give space to this distinction. However, it cannot be denied that the power set up in 1949 has been able to develop the economy while maintaining political and social stability, without having to control vast opposition movements.[41] Does this mean that the Chinese people do not aspire basically to the same freedoms as Western citizens? Or did the power put in place in 1949 succeed in transmitting a political culture which ensures its permanence, while giving in return to the people the material living conditions that satisfy them? Even if the answer to these questions is not easy, I nevertheless will try to draw up an assessment of the political culture of China, to detect the traditional features which persist today, and the new values which appeared after the collapse of Empire.

## *2.1 The Imperial power*

### *2.1.1 Confucianism: the ideological base of the Chinese Empire*

Confucianism is a whole set of moral rules and social obligations.[42] It is founded on the thought of Confucius (551–479 BC), supplemented and developed successively by Mencius (380–289 BC), Xunzi (300–230 BC), Dong Zhongshu (179–104 BC) and other great Confucians masters.[43] It is during the Han dynasty (206 BC), under the reign of Emperor Wudi that this philosophy became, with the reinterpretation of Dong Zhongshu, the orthodoxy of the Imperial dynasties.

This ideology, which deeply modelled the Imperial bureaucracy for 2,000 years, is a unique example of stability of a system of thought which constituted the ideological support of Imperial power, in spite of the many periods of instability. This is not to say that during the Imperial era this was the only political philosophy in China. As Zufferey explains, this ideology has become in fact, during the Han dynasty, a synthesis which combines with the Confucian values the yin/yang, legalism, Taoism, as well as other streams of the pre-Imperial era. Moreover, Zufferey draws our attention to the work of Wang Chong (AD 27–97). In fact Wang Chong can be considered a pioneer of the post-Maoist era, as he considers innovation and creativity to be the major qualities of the intellectuals.[44] No wonder these ideas were severely criticized during the Imperial era, and above all by Emperor Qianlong (r. AD 1736–95), very likely because they constituted a threat to the ideology upon which rested the Imperial power. Wang Chong's ideas were rediscovered in China during the twentieth century, and they may constitute today an interesting support to the new trends of the development strategy, as defined by Hu Jintao at the last

Party Congress of October 2007, when he put a lot of emphasis on the necessity to introduce innovation into several important domains of Chinese society. I will come back to this important point at the end of this chapter.

Another important point is worth mentioning at this stage of our presentation of the Imperial ideology. In spite of the remarkable stability of the main ideological foundations of the Chinese Empire, this is not to say that Chinese society remained unchanged from the beginning to the end of the Empire (i.e. from the second century BC to the beginning of the twentieth century AD). These changes have been very well summarized by the French sinologist Marie-Claire Bergère as follows:[45] before the nineteenth century China is not a stagnant society as is too often described by Western observers. The remarkable dynamism between the sixth and the eleventh centuries is followed by the Dark Age and isolation, following the Mongol conquest that came to an end only at the beginning of the sixteenth century under the Ming dynasty. A new economic development then takes place that continues under the Qing dynasty until the beginning of the nineteenth century. Moreover, China has been a pioneer in the development of science and technology since the tenth century.[46] At the moment when Europe starts its own scientific development (fifteenth–sixteenth century) China still possesses a considerable advance in science and technology over Europe. The Chinese scientific innovations exerted a remarkable impact on the organization of economic production, as well as on social structures, including the appearance of forms of market economy that are still partially present today, and are therefore worth studying in order to understand the specific forms of the development of market mechanisms during the reform era; that is, after 1978.[47]

Nevertheless, in spite of these very rich and varied contributions to philosophy, science, technology, and economy, the point that is for our perspective decisive, is that the official Confucian ideology constituted the basis upon which the Imperial dynasties were able to justify and impose their power for more than two millennia. Moreover, some aspects of the Imperial ideology, namely the propensity to secrecy especially in the domain of science and technology, forbade the diffusion of scientific knowledge outside a very narrow circle of scientists controlled by the Imperial power.[48] And this is one of the major reasons (in addition to other factors within Chinese society) that explains why China lagged far behind Europe toward the middle of the nineteenth century, especially in terms of economic and military power.[49]

The main idea at the beginning of the development of official Confucianism was to manage the country by moral rules to master the political disorder of the end of the Zhou dynasty (second century BC).[50] The ideal society for Confucius is the Dao where harmony reigns.[51] To attain this goal, each member of society must act in conformity with principles (li); that is, at the same time a set of moral rules which govern social relations, and of rites which ensure the order of society and the functioning of the state's apparatus. It is necessary to cultivate the virtue of avoiding seeking the satisfaction of personal interests. The honest man (junzi), who seeks the general interest, must direct the vulgar man (xiaoren) who seeks personal advantage.[52]

Human relations are conceived on the basis of family relations,[53] the civil servant (literati), thanks to the years-long study of traditional Confucian canons, must stand as the example of xiao (filial piety) in the family.[54] This virtue is then transposed to extra-family relations. Their filial piety is transformed then into political fidelity toward the Emperor. And this justifies the management of the country by these civil servants who share the same Confucian ideology. This society is hierarchical and its management is paternalistic: the ministers must submit themselves to the Emperor, the son to his father, the wife to her husband, the junior to the elder. Governing people are regarded as 'fumuguan' (parent-civil servant) and the governed ones as 'zimin' (child-people). According to Dong Zhongshu, man is the creature of Heaven; man, Heaven and Earth form a unit. Man can communicate with Heaven and must be subjected to its will. This conception, which corresponds to a paternalistic view of governance, provides a solid base for the monopolistic power exerted by the Emperor. The latter reigns like a supreme head of a household since, according to the doctrine, he is the representative of Heaven on Earth to manage 'Tianxia'; that is, all that is under the Sky-Heaven; that is, China. But this absolutist power is not without limits, at least in the moral sense. The sovereign must improve himself to become a moral example, otherwise Heaven will give him warnings by causing natural disasters, and eventually, if he persists in error, it will withdraw from him its mandate by means of popular revolts. The good governance must pass through the education of the people on the basis of moral rules and the implementation of benevolent policies (ren zhi). Consequently, punishments are only secondary means against the vulgar men.[55] Let us now examine how this ideology is transposed into the organization of Imperial power.

### *2.1.2 The Imperial bureaucracy and the mandarins*

The Imperial bureaucracy is composed of two parts: the Emperor and the class of the civil servant. At the top of the hierarchy the Emperor monopolizes the legislative, executive, and judiciary power. This power is absolute and indivisible. Whatever his personality and his intelligence, the Emperor had necessarily to rely on an administration to exert his absolute power over an immense agricultural country like China. In addition, an economy made up of small agricultural properties could not provide the conditions necessary to the formation of a class of literati able to acquire economic, and thus political, independence.[56] Moreover, tolerating the existence of a class of intellectuals, independent from Imperial power, would have contributed to the creation of a dangerous countervailing power for the monarch. The essence of the Imperial bureaucracy is totalitarian, even if it never possessed the material means to totally control the country and its people. The creation of an immense state apparatus is the result of absolute power, and the development of this apparatus has in turn reinforced the totalitarian character of the regime.[57]

Through the centuries the Imperial bureaucracy has showed an unequalled continuity, in spite of the alternation of dynasties, and remained the principal pillar of Imperial power. The mandarins which belonged to this state apparatus are even considered, as a group, the real masters of the Empire. This class of intellectuals

marked the history of China for 2,000 years by its omnipresence in the official, social, economic, and cultural life.[58]

The majority of mandarins form the elite who succeeded in passing through a selection system of a rather political nature, founded upon the canons of Confucianism: the Imperial examinations (Ke ju zhi). They thus share the same Confucian philosophy. The implementation of this system made it possible not only for the Confucians to be integrated into the power structure, but also for the Emperor to secure the submission of all the intellectuals, since each one of them had the same possibility, at least in theory, to become a member of the leading class.[59] In fact, this system satisfies as much the intellectuals as the Emperor. On the one hand, the Confucians can obtain at the same time a lifestyle worthy of their statute and a royal way to carry out their political ideal, and on the other hand the monarch avoids the development of a countervailing power, acquires an effective tool of government and, more indirectly, ensures himself of a general popular adhesion to the official ideology.[60]

The civil servants thus recruited assist the Emperor in the exercise of his power without distinction between administration and politics and can be assigned to any function at the central or local levels. They take part in the decision-making process and implement the decisions.[61] Know-how, good manners, the mastery of general culture and of the art of managing men are more important for the success of their career than the mastery of specialized knowledge.[62]

### *2.2 The end of the Imperial bureaucracy and the new bureaucracy of the Kuomintang*

The decline of the Imperial system can be briefly described in its economic, political and ideological dimensions. As far as economy is concerned, the appearance of new agricultural techniques, the development of industry, the multiplication of trade, and financial relations with foreigners undermined the traditional economy, which constituted the economic basis of the existence of the government and the Imperial bureaucracy.[63] In addition, the forced opening of China by the foreign capitalist powers accelerated the process of bankruptcy of the traditional economy. From a political point of view, a series of military defeats vis-à-vis the foreign invasions and the imposition of the unequal treaties, the country revolt of the Kingdom of Heaven of Taiping (1851–64), and the rise to power of local authorities seriously shook the legitimacy of the Qing dynasty. On the ideological dimension, the constitutional reform of 1898 (Wuxu bianfa) spread in society the democratic and Western political ideas, and the idea of a democratic revolution gained an increasing number of followers.[64] One could thus have expected radical changes similar to those that appeared in Europe between the end of the eighteenth and the nineteenth century.

However, the victory of the 1911 Revolution lead by Sun Yat-sen put an end only to the reign of the Qing dynasty, but not to that of the bureaucracy. The persistence of the traditional economy, the lagging expansion of industry and of the national capitalist economy, and the exploitation of China by foreign powers

and their political interferences made it possible for the old bureaucratic class to survive after the revolution in spite of the formal transposition of a Western-type political system.[65] The establishment of the Party–State by the Kuomintang gave rise to a new bureaucracy.

In the same way, the revolutionary theory of Sun Yat-sen presents some continuity, beside considerable innovations. Indeed, even if the strategy of reform is conceived as a progressive process[66] culminating in the establishment of a constitutional government, the role allotted to the Party corresponds to the idea of unity and harmony similar to the Imperial ideology.[67] True, in Sun's design, state power is divided into political power (zhengquan) and government power (zhiquan). Political power is allocated to the people, who exert four political rights: right to elect, right of revocation, right of elaborating laws, and right of re-examining the laws.[68] Moreover, the constitution subdivides government power into five functions: executive, legislative, judicial, supervisory, and power of examinations. It is moreover specified that the Party must be opened to popular or political formations who have a progressive role in the revolution, and that the government by party does not imply that only one party monopolizes state power, but that it governs with the political ideas of a revolutionary party.[69] Lastly, at the local level Sun Yat-sen recommends the autonomy of the local authorities as a means of making the masses take part in state affairs, and as the base of a democratic republic. Nevertheless, the role of the Party is again defined in the tradition of the unity principle. Indeed, it is specified that the government must be directed by a party, which must be revolutionary by nature.[70] This political formation governs collectively through its organizations at the various administrative levels. The Congress of the Party is the supreme body of power, and its executive committee is empowered to carry out the decisions of the Congress.

Moreover, it is true that the Nationalist Party exerts the political power as a representative of the people, and allots the power of government to the national government.[71] Nevertheless, it is also true that the Party controls and orients all the major government's activities. In practice the Central Political Committee of the Nationalist Party constitutes the link between the Kuomintang and the government, and all the important decisions are made by this authority enjoying broad legislative and administrative attributions.[72] The control of the government by the Nationalist Party can be summarized as follows: (a) all the fundamental laws are elaborated by the Party, (b) the principles, programs, policies of the government are initially adopted by the latter before being implemented by the government, (c) the most important persons in charge of governmental affairs are appointed amongst the members of the Central Executive Committee of the Nationalist Party.[73] In conclusion, some bodies of the Nationalist Party do, in fact, take up the governmental duties in place of the national government. The latter is only the executive body of the Kuomintang.

The implementation of Sun's ideas by the Kuomintang obviously did not lead China toward a democratic republic but to the formation of a new bureaucracy, that of the Kuomintang. First, the revolutionary nature of the Nationalist Party radically changed since the installation of its power in Nanjing in 1927:[74] after having

integrated the former feudal bureaucrats and the warlords and having benefited from the support of the international financial capital, it was no longer an anti-imperialist and anti-feudal party. Second, state power was monopolized by the strong men of the Kuomintang and more precisely by its chief Tchiang Kai-shek. The political ideal of Sun was in fact abandoned and was used only as pretext by the leaders of the Nationalist Party to preserve their power. Third, compared to the Imperial bureaucracy based upon the exploitation of the peasants, this new bureaucracy, while being based on the support of foreign imperialist powers, monopolized the national economy by the expansion of monopolistic capital, which caused an opposition between this new bureaucracy and the rest of the population. Fourth, in spite of the modern form of the administrative structures, the functioning of the administration was based on the old bureaucratic practices.[75]

The analysis presented above, based upon the works of Chinese scholars published in mainland China, is basically confirmed by Western academics. As Immanuel Hsü puts it:

> Of the three goals it set to achieve in 1928 — nationalistic revolution, democratic reconstruction, and social reform — the government by 1937 had made considerable progress toward the first, modest advance toward the second, but failed miserably in the third. Moreover, its extension of the Tutelage period [i.e. the six years dominance period of the Nationalist Party envisaged by Sun Yat-sen's incremental model] beyond the original six years from 1929, under the pretext of foreign invasions and domestic insurrections, disenchanted the liberals, who came to regard the delay as an artful device of the Nationalists to prolong their monopoly of power at the expense of constitutionalism.[76]

As for the persistence of the concept of unity, materialized by the dominant role of the Nationalist Party and the de facto institution of a Party–State, it is interesting to note that not only can this be considered as a heritage of the Imperial era, but it can also be explained by the role played at that time by the Soviet Union and the Comintern. In fact the Comintern simultaneously supported the Communists and the Nationalists, and provided to both parties assistance in training their leaders in the setting up and managing of a Leninist Party–State.[77] Contrary to Western powers (and especially the USA) who only supported the Nationalists on the basis of Real Politik and their ideological aversion toward communism, the Soviet Union supported both parties, in part for Real Politik considerations, but also for theoretical reasons based upon Marxian theory. China being at the very initial stage of capitalism (compared to Russia at the time of the Bolshevik Revolution), a victory of the Nationalists seemed to be the most likely outcome from the point of view of pure Marxian theory, hence the Comintern's support of the Nationalists. But the Russians' own historical experience, based upon Marxist–Leninist theory of the role of the Communist Party in succeeding in a revolutionary movement in a country (Russia) where material conditions were not at all ripe, led them to support the Communist Party of China as well.[78] We can now anticipate one of the conclusions of our analysis of the victory of the Communist Party and the setting

up of the Party–State under the label of the People's Republic of China (PRC): the persistence of part of the traditional Imperial ideology after the collapse of the Chinese Empire, and the history of the relationships between the Comintern and the Nationalist and Communist Parties suggest that Marxism–Leninism is very likely less responsible for the institution of the Communist Party–State in 1949 than the Imperial heritage. At the beginning of the twentieth century, it just happened that Marxism–Leninism was the political theory and ideology that best suited 'the ideology, agenda and modus operandi' of the newly created Communist Party of China (1921): the novelty of class struggle and the dictatorship of the proletariat (exerted on its behalf by the Party) could be perfectly married with the value of unity inherited from the Empire.[79]

We can now conclude that the political culture of the Kuomintang perpetuated some of the features of the traditional Imperial political culture, namely the principles of unity and harmony, assured by a single party; the non-distinction between politics and administration, assured by the dominance of the Nationalist Party over governmental organizations at all administrative levels. But at the same time some new values have appeared in China, even if they did not discard the old ones: constitutional government and its correlates (such as the supremacy of a written constitution, the separation of powers, modern forms of administrative structure, the rule of law); and, under the pressure of international capitalist forces (related to local economic interest groups) some ideas of market economy. Of course these ideas had already appeared during the last decades of the Empire, but with the establishment of the Republic, one would have thought that they would gain more supporters and credit. However, we are forced to conclude that the traditional features of Chinese political culture were still more powerful than the new ideas. Moreover, some quite difficult times were ahead of China. Whereas during the nineteenth century the major threats and challenges came from outside, this time the problems are the consequence of the cumulative result of both internal struggle and foreign invasion.

During the inter-war period, the situation of China becomes chaotic. Not only does the new republic not impose its power, but the birth of the Communist Party of China (1921) leads to a civil war, which the Japanese invasion of September 1931 puts in parenthesis until 1945, but which resumes again after the end of World War II culminating in 1949 with the defeat of the Kuomintang. It is therefore important to examine what were, during this period, the ideological foundations of the power of the future winner of 1949: the Communist Party of China. My objective will be, once again, to verify the hypothesis of the persistence and/or change of the main traditional features of the Chinese political culture within that of the Communist Party that was to become the dominant culture after 1949.

### *2.3 The experience of the Communist Party of China from 1931 to 1949*

The Communist Party of China established successively, during its armed struggle that lasted about 20 years, three types of power or government: the Soviet Republic of China (Zhonghua suwei'ai gongheguo) at the beginning of its armed

struggle against the Nationalist Party in the 1930s; the democratic government (kangri minzhu zhengfu) during the war of resistance against the Japanese invasion; and the popular democratic government (renmin minzhu zhengquan) during the civil war which opposed, once again, the two rival Chinese parties. The assumption that I formulated previously — that is, the permanence of certain features of the political culture of the Imperial power — can now be transposed to the experiments accumulated by the Communist Party during these three periods and to suggest that they have largely modelled the power of the People's Republic of China.

These three powers established by the CPC have in common the same major feature: non-distinction between the role of the CPC and that of the government. Once again the principles of unity and harmony are implemented in China, this time by the CPC. In the Soviet republic of the 1930s, the organizations of the CPC tended in practice to replace the Soviet which should have played the role of government.[80] The leaders of the CPC ruled directly within the Soviet, and designated the persons who should be elected.[81] This overlapping between the Party and the Soviet was due to multiple reasons: the imitation of the experiments of the Russian Revolution, the influence of Marxism–Leninism for the definition of the role of the Party, and in particular the requirement of mobility in the armed struggle.[82] To deal with these phenomena considered as abnormal, the Party decided, at the time of its VI Congress (1928), to set up 'Party core groups' within all the Soviets. It is true that, even if it was established that the role of the Party was to be played through these groups within the Soviets, the Party insisted on several occasions on the importance of observing the procedure for translating the resolutions and political proposals into laws and decisions of the Soviet.[83] Apart from the ambiguity of this statement, it is certain that the replacement of the Soviet by the Party has generally constituted the rule.

Another notable feature of the relations between Party and administration during the period of armed struggle was approved by 'the decision of the Central Committee of the CPC on the direction of the bases of resistance against Japan and the readjustment of the relations between different organizations'.[84] With the aim of adapting to the difficult situation with which it was confronted in the war, and of reinforcing mobility, the Central Committee required by this decision the unification of the direction for each base organization of the Party. In other words, the Party organization was to be the supreme leading authority of each local authority, and should rule all the activities relating to the Party, the army, and the masses. This decision made it possible for the CPC to reinforce its capacity of directing the local authorities, organized according to the principle of the 'three thirds' which were already ensured through the 'Party core groups'.[85] This principle was also implemented during the civil war. The Central Committee underlined in one of its documents that this unification of the direction of the Party means that the problems are to be solved through the deliberations within the organizations of the Party rather than by personal decisions. Moreover, the 'Party core groups' installed within the government and the popular organizations have the obligation to ensure the implementation of the decisions of the Party by these organizations.[86]

We will see thereafter that the essence of this way of conceiving the control of the country basically did not change after the introduction of the popular Republic in 1949.

Once again, the principles of unity and harmony, and the non-distinction between politics and administration, assured by the dominance of the CPC over the whole of the governmental organization, are at the core of the political culture of the CPC, together with the new Marxist ideology, that Mao will adapt to the Chinese situation.

## *2.4 The political culture of the People's Republic of China: continuity and change*

In the first part of this section, I will begin by addressing the elements of the political culture inherited from the past which still persist today. Then, in the second part, I will take into consideration the new elements which have emerged during the history of the PRC, and especially during the Deng era. Finally, I will examine the changes introduced by Jiang Zemin and Hu Juntao.

### *2.4.1 Persistence of traditional political culture*

A first finding is evident: the principles of unity and harmony are still at the core of the Chinese political culture after 1949 in spite of (or maybe because of) the adoption of Marxism–Leninism, although Mao has adapted this ideology to the Chinese situation.[87] Although there are considerable differences between the traditional Imperial ideology and Marxism–Leninism, the implementation of the political ideals of the latter necessitates a centralized and unified political direction under the leadership of the Party. The principle of unity is therefore also at the core of the new Chinese political ideology. This is true first for the management of the revolution (1921–49), and second for the implementation of the revolutionary ideals after the victory over the Kuomintang (1 October 1949), in spite of the fact that the ideals based upon Marxism–Leninism constitute a radical change from the Imperial past. Deng Xiaoping has further developed Mao's ideas by introducing the Four Cardinal Principles and the Four Modernizations, that in fact complete the Marxist–Leninist elements of the Party's ideology.[88] As these new elements will be confirmed by Deng's successors, they will acquire, in my opinion, the statute of fundamental elements of 'the traditional PRC ideology'. I will deal in more detail with these ideas in the chapter on Deng's development strategy, and in the last part of this chapter I will try to identify the new elements introduced by Jiang Zemin and Hu Jintao and evaluate to what extent these novelties constitute a departure from traditional Chinese ideology, both Imperial and Marxists–Leninist, without leaving aside the hypothesis of a revival of certain traits of the Confucian tradition. For the moment it suffices to show that the structure and the formal organization of state power of the PRC are the first indicators of this persistence.

## PERSISTENCE OF TRADITIONAL POLITICAL CULTURE IN THE ORGANIZATION OF THE PARTY–STATE

China is formally a unitary country, and this means that the Central Government directs the activities of the local communities and determines the attributions of the central and provincial administrative bodies (Art. 89, subparagraph 4 of the Constitution). The local governments direct their departments and the governments of the lower level, and have the right to modify or cancel their decisions when considered to be inappropriate (Art. 108 of the Constitution). As the local governments are issued from the People's Parliament of the same level, they are accountable to the latter for their activities.[89] But in fact, the local governments must be subjected to a double direction, on one side to that of the local Peoples' Parliament, and on the other side to that of the Committee of the CPC of the same level and that of the government of the higher level.

Within the administration the principle of democratic centralism and the system of responsibility for the administrative chief are implemented at all levels.[90] This means that public policies, before approval and implementation, must be discussed at length. Once approved, they must be applied without fault. The chief directs all the activities of his organization, has the last word, signs all the decisions, orders and payments, and bears the full responsibility. He has the right to propose to the assembly of the same level candidates to positions with responsibility.[91] I will come back to democratic centralism hereafter.

For the moment it is interesting to note that, with the exception of the principle of democratic centralism and the system of responsibility for the administrative chief, the formal organization and the composition of the government are not basically different from what exists in Western countries. It is the role played by the Communist Party which ensures an application without fault of the principles of unit and harmony.[92]

Whereas the organization of the Party at all levels (central and local) does not make it possible to detect indicators confirming the permanence of traditional cultural features, it is rather the role attributed to it by its statutes, and the way of interpreting this role, which confirm the permanence of the principles of unity and harmony.[93] First of all, as we have already seen, the Party functions on the basis of democratic centralism, which is the organizational principle of the CPC. This principle requires that the Party members subject themselves to the Party organization, the minority to the majority, the lower rank organizations to the higher ones, the organizations and the members of the Party to the Congress and to the Central Committee. Furthermore, the statutes attribute to the Party the role of being the avant-garde of the Chinese working class, the Chinese people and the Chinese nation. Its supreme ideal and its ultimate goal are to carry out Communism.[94] The CPC takes Marxism–Leninism, Mao Zedong's thought, the theory of Deng Xiaoping, Jiang Zemin's Three Represents, and Hu Jintao's Scientific Development Concept as the guide of its action. Then, the actual functioning of the Party does nothing but reinforce these same principles. But let us examine first the organization of the Party.

The National Congress and the Central Committee elected by the former constitute the supreme leading bodies of the Party. Similarly, the local assemblies and committees of the Party, elected by the former, are the leading bodies of the Party at the local level.

At the central level the Congress of the Party is convened by its Central Committee every five years.[95] The Congress of the Party elects its Central Committee and the Central Commission of control and discipline. During the interval between two Congresses the Central Committee directs and represents the Party abroad. The plenary session of the Central Committee is convened by the Political Bureau at least once a year. The Political Bureau, its Standing Committee, and the Secretary General are elected by the plenary session of the Central Committee. The Political Bureau and its Standing Committee exert the functions of the Central Committee during the interval between two plenums. The Secretary General must sit in the Standing Committee of the Political Bureau; it convenes the meeting of the Political Bureau and that of its Standing Committee, chairs the Central Secretariat which is the working body of the Political Bureau and of its Standing Committee.

On the local level, from the provincial to the district levels, the local Congress of the Party is convened every five years; it elects the Committee of the Party of the same level. The Local Committee of the Party directs the activities of its locality during the interval between two congresses. The plenum of the Local Committee elects its secretary, secretaries assistant and its Standing Committee. This Standing Committee exerts the functions of the Local Committee of the Party during the interval between two plenums.

Given this organization, which as we have already noticed is not overtly built on the principles of unity and harmony, what are the practices in the activity of the Party which make it possible to reinforce these principles? First of all the Party sets up 'Party Organizations' or 'Core Party Organizations' or 'Party Committees' or 'Party (leading) groups,'[96] which are created when there are more than three members of the Party within enterprises, villages, social services organizations, schools and universities, institutes of research, districts, mass organizations, intermediate organizations, the Popular Liberation Army, etc. These core organizations of the Party are charged to implement the line, principles, policies and resolutions of the Party, and to organize its members; they constitute the combat fortress of the Party at the base. Moreover the Party institutes 'Party Organizations'[97] within the central and local governmental administrations, mass organizations, economic, cultural, and other non-Communist organizations. They play the role of core of the direction. They have inter alia the obligation to apply the line, principles and policies of the CPC, and the power to discuss and decide affairs of major importance for these organizations.

In this context, the most striking characteristic of the way of ensuring unity and harmony consists in the link (of hierarchical nature) between the Party and the government. The Party appoints in fact the most important governmental leaders, and many of these occupy leading positions within the Party (see Figure 1.1a and 1.1.b). Moreover the Party gives all the fundamental impulses (principles, policy guidelines) to the governmental authorities. And that is valid on all the levels of

the politico–administrative structure of China. It is also the demonstration that the symbiosis between administration and politics continues to be one of the characteristics of the political culture and the political practices of contemporary China. Several indicators support this statement. Figures 1.1a and 1.1b summarize the situation during the first and second mandates of President Hu Jintao. There are some minor differences, but the general structure is practically the same. There are two remarkable differences between the two mandates of Hu Jintao. First, for the period 2007–12 the President of the Supreme Court (Yang Jen-shou in Figure 1.1b) is not a member of the Central Committee, whereas his predecessor was (Xiao Jang in Figure 1.1a). Second (which does not appear in Figures 1.1a and b), whereas during the first mandate (2002–7) the Director of the Organization department (who supervises the major appointments and promotions at the central and local levels) was a member of the Permanent Committee, during the second mandate (2007–12) the new director is a member of the Central Committee, but not of the Permanent Committee.

At the central level the Permanent Committee of the Political Bureau of the Central Committee of the CPC and its members constitute the true core of state power. These members cumulate the functions of leaders of state: Hu Jintao, who is Secretary General of the Party, is also President of the Republic and President of the Military Commission; the Vice-president of the State, the President of the Parliament, the chief of the government (the Prime Minister), and the President of the Consultative Conference are all members of the Permanent Committee of the Political Bureau. Within the Political Bureau each permanent member, assisted by some not-permanent members of the Bureau or by a secretary of the Secretariat of the Party, is in charge of state affairs in a certain field, and directs in fact the governmental agencies of this field. The government carries out the policies laid down by the direction of the Party.

The CPC exerts its direction of state affairs through the Party committees and the Party groups.[98] The most important decisions are made at the meetings of the Party committees and Party groups. Departments are established within the Local Committees which ensure the supervision of the corresponding governmental services. The secretary of the committee and his assistants have more authority than the administrative chief of services of the same domain.[99] The secretary of the committee, number one of the locality, has precedence over the governor or the mayor. The administrative chief of a locality, normally assistant secretary or permanent member of the committee, is subordinated to the decisions of the committee of the abovementioned group. It is not rare that a secretary or his assistant cumulates governmental functions.

The management of the cadres constitutes one of the means used by the Party to concretize its management of the state. This means the nomination, the revocation, and the current management of the cadres: training, recommendation, assignment, evaluation and control. It covers not only the executive members of the Party in governmental and partisan administrations, the Peoples Congress, the court, the procuratorate, the mass organizations, and state-owned enterprises (SOEs), but also the non-communist cadres in leading positions within the schools, the universities,

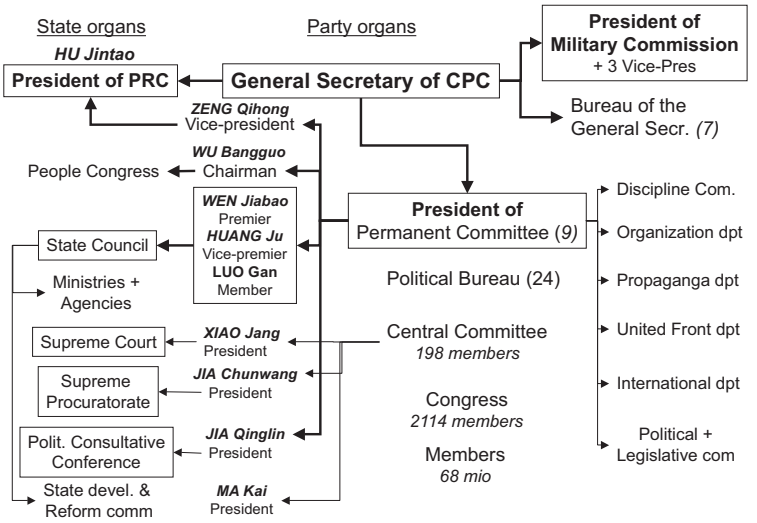


*Figure 1.1a* Political organization of PRC (2002–7).

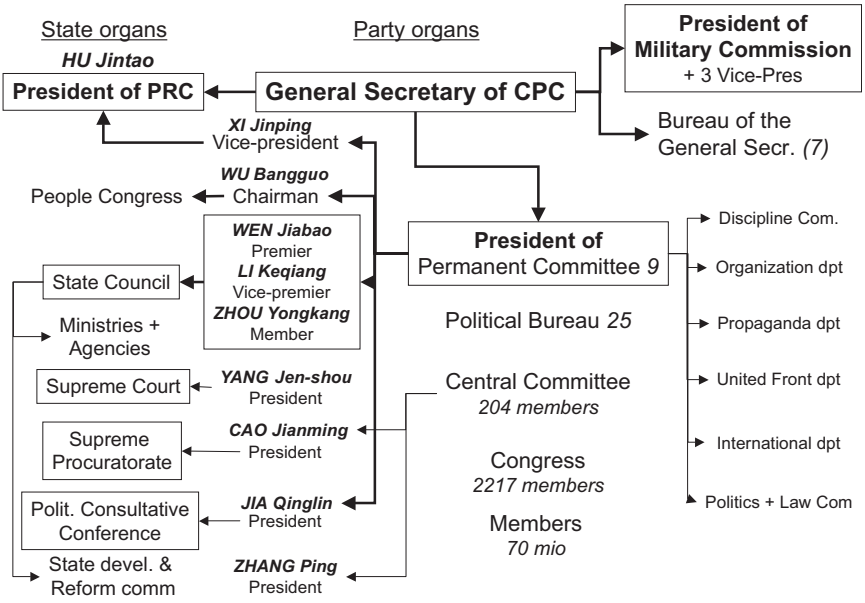


*Figure 1.1b* Political organization of PRC (2007–12).

the institutes of research, etc. The central direction of the Party determines the lines, principles, and policies concerning the management of the cadres, and establishes and interprets the laws and the regulations in this matter.[100] The Department of the Organization of the Central Committee of the CPC and the departments of the organization of the Local Committee of the Party are bodies in charge of this field. This responsibility is assumed by hierarchical rank and by sector.[101] Under the terms of 'the decision on the establishment of the list of functions of the cadres by the Central Committee of the CPC' made public in January 1955, the Central Committee is responsible for the recruitment and the promotion of the cadres mentioned on this list. These are the most important cadres with rank of governor or minister. The Local Committees of the Party deal with the cadres of the immediately lower level. Horizontally, within the Central Committee of the Party or within its Local Committees, this task is distributed between the departments by sector and they manage the executives in their own domain.

## PERSISTENCE OF TRADITIONAL POLITICAL CULTURE IN THE DISCOURSE OF CHINESE LEADERS

As I have said on several occasions in this chapter, Deng Xiaoping is considered as the Chinese leader who led the country toward and on the road of reforms by introducing several novelties into the PRC ideology, market mechanisms being the most important as it meant a departure from the implementation of a fully planned economy. Nevertheless, he still adheres to some of the traditional elements of Chinese political culture, namely the principles of unity. Indeed, his definition of the Four Cardinal Principles[102] stresses the fundamental role of Marxism–Leninism and Mao thought as the ideological guidance of the PRC and the dominant role of the Communist Party as the leading organization capable to implement socialism in China. I will come back in more detail to Deng's role in forging both ideology and China's policies in chapter 2.

It is interesting to note that some of these traditional cultural traits (both of the Imperial and the Mao eras) constitute the logic underpinning the speech President Jiang Xemin has delivered at the XVI congress of the CPC, 8 November 2002.[103] While referring several times to Mao's and Deng's contributions, Jiang starts his speech by reaffirming some fundamental principles, above all the fundamental necessity of reinforcing the capacity of the Party to continue to exercise its leadership over Chinese society. And here again we have a clear reassessment of the concept of unity. Right from the beginning it is strongly reaffirmed that: 'Our Party must stand firm in the forefront of the times and unite with and lead the Chinese people of all ethnic groups …'.

President Jiang then develops 10 fundamental principles, of which the following suffice to demonstrate the importance of the reinforcement of the Party in the discourse of the then Secretary General. Jiang reaffirms the necessity to continue to adhere to the Four Cardinal Principles and develop socialist democracy. 'The Four Cardinal Principles are the very foundation on which we build our country. We must uphold the leadership by the CPC and consolidate and improve the state

system — a people's democratic dictatorship, and the system of political power — the people's congresses.'[104]

Moreover, even when dealing with his theory of the Three Represents, Jiang is very careful to affirm that the goal of this fundamental strategy is to reinforce the Party. The theory of the Three Represents, says Jiang:

> is a powerful theoretical weapon for strengthening and improving Party building and promoting self-improvement and development of socialism in China. [Moreover,] to carry out the important thought of Three Represents it is essential to push forward Party building in a spirit of reform and instil new vitality in the Party. Attaching vital importance to and strengthening Party building is a magic weapon, by which our Party has grown from a small and weak force to a large and strong one, risen in spite of setbacks and matured gradually in surmounting difficulties. As the historical experience of the Party over the past 80 years and more shows, the most important point is that we must build up the Party according to its political line, central task and general goal for building it with a view to enhancing its creativity, cohesion and fighting capacity.

By dealing then with the reform and the improvement of the role of the CPC, Jiang further defines the CPC role as follows:

> Leadership by the Party mainly refers to its political, ideological and organizational leadership. The Party exercises leadership over the state and society by formulating major principles and policies, making suggestions on legislation, recommending cadres for important positions, conducting ideological publicity, giving play to the role of Party organizations and members and persisting in exercising state power according to law. Party committees, playing the role as the core of leadership among all other organizations at corresponding levels, should concentrate on handling important matters and support those organizations in assuming their responsibilities independently and making concerted efforts in their work. We will further reform and improve the Party's working organs and mechanisms.

In the final part of his speech Jang Zemin comes back to the necessity of strengthening the Party by showing the importance of the link between the reinforcement of the Party and the training of the Party's cadres. He stresses the necessity to build up the Party's governing capacity and improve its art of leadership and governance; to adhere to and improve democratic centralism and enhance the Party's vitality, solidarity and unity; to build a contingent of high-caliber leading cadres and form an energetic and promising leadership; build the Party well at the primary level, reinforce its class foundation and expand its mass base. Jiang further reaffirms that Party organizations in enterprises must

> carry out the Party's principles and policies, and provide guidance to and supervise the enterprises in observing the laws and regulations of the state.

> [They should exercise leadership over] trade unions, the Communist Youth League and other mass organizations, rally the workers around them, safeguard the legitimate rights and interests of all quarters and stimulate the healthy development of the enterprises. We should attach great importance to Party building in communities, striving to bring about a new pattern in Party building in urban communities, with the focus on serving the people. We should intensify our efforts to establish Party organizations in mass organizations and intermediaries. We should fully carry out Party building in Party and government organs, as well as schools, research institutions, cultural group and other institutions.

Jiang's successor, Hu Jintao, while introducing some important novelties which I will deal with in the next section of this chapter, in his speech at the following Party Congress of October 2007 remains nevertheless in line with some fundamental elements of the traditional Chinese political culture: the Four Cardinal Principles are confirmed as well as the necessity to further strengthen the Party. And we will see in the last part of this chapter that some novelties introduced by Hu can be interpreted as a revival of Confucian values.

We may now conclude that during the post-Mao era the adoption of some remarkable novelties, such as the market mechanisms promoted by Deng which I will deal with in the next part of this chapter, has not weakened many of the traditional features of China's political culture inherited from the Imperial era; namely the values of unity and harmony. On the contrary, by integrating these novelties into Marxism–Leninism (as it was interpreted and adapted by Mao to the Chinese situation) the Chinese leadership has not weakened these traditional values, but has even strengthened them. In fact, Marxism–Leninism is quite in line with the idea of attributing the leading political role to the Party, considered as the sole and exclusive organization capable of guiding the country on the road toward socialism. In this perspective, the traditional values of unity and harmony inherited from the Empire are the values the Party must promote and abide to, if it wants to build the ideological basis giving it the necessary legitimacy for accomplishing its historical mission. Moreover, by introducing market mechanisms within this ideological framework, the Party can justify its leading role as it is in charge not only of introducing elements of market economy while safeguarding stability, but also of being in the position, thanks to its leading role, to limit the negative consequences of market economy. I will deal with these last aspects in the following chapters. For the moment it suffices to remark that the result of this mix of old and new cultural elements has been the emergence in the post-Mao era of a new traditional political culture (or ideology) combining traditional values inherited from the Empire, new values based upon Marxism–Leninism and, in the Deng era, market economy. The structure of this new ideology may look rather strange to Western scholars, used as they are to analyzing social phenomena through the lenses of their rational categories that do not allow the coexistence of such 'contradictory' values as unity, harmony and free market economy.[105] For a Western mind, a 'socialist market economy with Chinese characteristics' is a flagrant contradiction in terms.

Nevertheless, after 30 years of reforms based upon this 'strange marriage', we must concede that China is showing to the world that, at least so far, it can manage this 'contradiction' in a relatively satisfactory manner. Nevertheless, it is today widely recognized by both Western and Chinese scholars that the implementation of this ideology and political programme has produced several remarkable factual contradictions.[106] But the present Chinese leadership seems to be seriously ready to address these contradictions in the near future, as has been confirmed at the National Party Congress of October 2007. I will come back to these important trends in the following chapters of this book and try to evaluate to what extent they can indeed eliminate these contradictions.

### *2.4.2 Changes in the political culture during the post-Mao era*

The accession to power of Deng Xiaoping marks an important break with the Maoist era that lasted more than 25 years from 1949 to Mao's death in 1976. This change is visible firstly by looking at the content of the reforms undertaken in the 1980s, and I will deal with this important development of Chinese society in the next chapter. But for the moment it is important to point out that these reforms were accompanied by profound changes in the ideological discourse, which are therefore very important in order to understand the Deng Xiaoping era. Not only do they make it possible to understand the Party's line, but they also have their own relative independence as they influence the political climate, and thus the political, economic and societal developments.

Before analyzing in more detail the ideological discourse during the Deng era, it is important to define more precisely what I understand by 'ideology' in this context. Following the work of Zhang Weiwei,[107] I use ideology as a concept similar to the concept of political culture which I have defined earlier in line with the more strict definition proposed by Lucian Pye: ideology (or political culture) is the whole set of the attitudes, beliefs and feelings, which gives order and a significance to the political process, and which defines the underlying postulates as well as the norms which guide behaviour in the political system.[108] In this sense, political culture can be considered as a whole set of ideas introduced into political discourse, with the purpose of guiding and/or of justifying public policies and political actions.[109]

#### THE OBJECTIVES OF DENG'S STRATEGY

I propose to understand the policies implemented by Deng as the result of a rational calculation pursuing two goals: on the one hand, improvement of economic performances of China which will satisfy the Chinese population by putting at its disposal goods and services, and on the other hand the consolidation of the power of the CPC and of the personal power of Deng within the Party. These two related goals were a rational response to the damages of the Cultural Revolution both for the Party and the Chinese population: the material conditions of the Chinese people had to be improved, and if this goal was to be achieved by the Party, this same goal would become the sine qua non condition for restoring Party legitimacy and

thus its power. Posing the question of the 'real' or main purpose of Deng's policies (personal power, Party power, or the wealth of the people) is irrelevant in this context. What is at stake is the justification of the reforms and, as we will see in the next chapter, the actual results of the reforms in terms of benefits or damages to the Chinese people.

The ideology developed by Deng is strongly related to these two objectives. Reforms were not possible without changing at least part of the ideology of the Mao era. An ideological change was thus a condition necessary for orienting political, economic and societal change. But in return, socio-economic changes have also brought changes of mindsets and ideologies. The relation between ideology and socio-economic changes is not a one-way but a two-way relation. It is thus clear that in our approach, power is also closely related to ideology, the leaders seeking to legitimate through ideological discourse the power they possess, and the policies they implement. Of course, as we shall see in the next chapter, it is not enough to 'preach', it is also necessary to provide people with what they need. In the case of Deng: economic development and access to goods and services. If the ideological discourse legitimates the existing power structure that places the CPC and its leaders at the apex of society, polity, and economy by promising to deliver what people need, it is plausible that ideology will accomplish its legitimating function. But one day or the other, power will have to demonstrate that what it has promised has actually been delivered. Moreover, at the moment of taking stock, one will also have to take into consideration the unwanted consequences that often appear along with the intended results of the implemented policies.

I will now analyze Deng's ideological discourse which I consider as a rational calculation aimed at attaining the two abovementioned goals: economic development and restoring, maintaining, and developing the CPC power. For this purpose I will first examine the process of Mao's succession; second, the introduction by Deng of the first fundamental change in official PCP ideology, that is, the concept of 'seeking truth from facts'; third, the search for democratization and its limits, which will bring us back to the question of power; fourth, the campaign against the bourgeois liberalization; and finally the promotion of spiritual civilization and of socialism with Chinese characteristics.

## DENG'S STRATEGY AND MAO'S SUCCESSION

In order to understand the importance of Deng Xiaoping as a leader, it is necessary to analyze Mao's succession. Mao had based his power more upon his own personality than upon the Communist Party as an institution, thus providing an outstanding historical example of one of Max Weber's types of legitimate power — 'the charismatic power'.[110] In fact, Mao's legitimacy rested largely on his charisma, and his death in 1976 left a great vacuum in the Chinese power structure. It is clear that a delicate phase of transition was then opened, that could have sent China in different directions, none of which could have been void of negative consequences.

Weber's typology is very useful for understanding this moment of transition. Weber distinguishes three types of legitimate power: legal-rational power, 'resting on

the belief in the legality of the adopted regulations,' traditional power, 'resting on the belief in the holiness of traditions valid from immemorial time', and finally charismatic power 'resting on the submission to a person possessing a particular charisma'.[111] For Weber, charismatic power is essentially exceptional, and thus it will eventually evolve toward an 'ordinary' form of power.[112] So, charismatic power is brought to evolve irremediably: 'it traditionalizes or it rationalizes (or legalizes itself)'.[113] This evolution is particularly necessary when the charismatic leader disappears and succession difficulties arise.

Hua Guofeng became the immediate successor of Mao. Mao is recorded as having said to him on his death bed: 'with you in charge I am at ease'.[114] He was officially confirmed as chief of Party and of the Commission of Military Affairs in July 1977. He introduced the famous slogan 'two whatevers': all that Mao decided must remain valid; none of the instructions of Mao must be violated.[115] It is clear that Hua asserts a legitimacy of the traditional type. He is legitimate because he is the successor of Mao, and his policies are legitimate because they are in line with Mao's policies. Mao's decisions are valid 'in any time'; they are the ultimate criterion of political action. But Hua's economic programme soon proved to be unsuited to the Chinese situation; the socio-economic conditions of the country made necessary a change of policy, and a rupture with the Cultural Revolution.

### THE FIRST FUNDAMENTAL DEPARTURE FROM MAO'S ERA: SEEKING TRUTH FROM FACTS

The introduction of this fundamental change in the official ideology of the CPC is strictly linked to the transition of the Party's leadership from Hua Guofeng to Deng. In 1977 Hua agrees to rehabilitate Deng (who was purged in 1976) and announces the official end of the Cultural Revolution, thus marking a first break with Mao's era. However, the traditional legitimacy asserted by Hua prevents him from deviating too much from Maoism, and this leads to a gradual crumbling of his power. Deng and his allies, critical of the policies pursued by Mao since 1958, launched an ideological attack against the slogan of the 'two whatevers'. In 1977 Deng declares that it was necessary to restore the traditions of the Party by 'seeking truth from facts' which was, according to him, the quintessence of the Maoist approach.[116] Deng thus sought to assert his legitimacy in the same way as Hua: by appealing to the Maoist heritage; that is, a legitimacy of the traditional type. Nevertheless, the reformists were not strong enough in 1977 to openly oppose Hua, without the risk of appearing to be against the Maoist heritage. Moreover, Deng has still to gain the support of the cadres of the Party, many of whom had remained faithful to Mao. In order to assess his power within the Party, Deng had to demonstrate being in line with Mao, and this continuity was against any kind of abrupt change. Nevertheless, the criterion of 'seeking truth from facts' is not simply an epistemological position; it is also an indicator of a break with the policy pursued by Mao. Such a departure from at least part of the Maoist legacy was necessary. Indeed, during the Cultural Revolution the Maoist ideology had lost a great part of its credibility within the Chinese population.[117] It is thus well and truly the legitimacy of the Party which is at stake here, and the reformists had very well understood that the Communist

Party could not remain in power without a serious change of policy. Deng thus skilfully succeeded in presenting himself as Mao's successor, while defining the first steps of a radical policy change.

One can interpret the new criterion of truth as a rationalization of the decision-making process, in line with the meaning given to it by Max Weber or even Nobel Prize winner Herbert Simon.[118] Indeed, once one has fixed the goals of the policies (value judgment), one can evaluate their effectiveness and efficiency only according to the results obtained (fact judgment). It is what Deng will do by announcing four modernizations in 1978. Public policies will be evaluated only according to one criterion: do they facilitate or prevent the achievement of these modernizations? It is also what he had previously affirmed in 1976 in a draft report on the future orientation of China: 'What is the new orientation? Out with romanticism and excessiveness: in with a realistic management based upon empiricism and the adequacy of the means with the objectives.'[119] This new criterion of truth allows more flexibility, as it makes it possible to propose entirely innovative solutions to the difficulties as they arise, since one will not judge policies according to any dogma, but according to the results obtained. It is this same idea that one finds in the famous sentence: 'It does not matter whether the cat is white or black, provided that it catches the mice'.[120] One can add that this change is not only a change in the process of legitimizing power, but also a change in individual and collective behaviour. If we apply to this change Weber's typology, which distinguishes emotional, traditional, value-rational ('wertrational') and instrumentally rational ('zweckrational') behaviours, one can consider that with Deng's new way of making decisions China's leadership passes from Hua's traditional behaviour (i.e. with actions 'dictated by practices, habits, and traditional beliefs'),[121] to Deng's instrumentally rational behaviour (i.e. actions where 'the actor conceives the goal clearly, and implements the means in order to attain this goal').[122] The goal set by the reformists, as I have already said, is conceived mainly in terms of economic performance.[123]

## THE SEARCH FOR DEMOCRACY AND ITS LIMITS

For Deng, the implementation of public policies aimed at improving economic performance, necessarily requires a 'release of thought';[124] that is, by encouraging a spirit of initiative in all Chinese citizens that will maximize the energies of the population, and the development of the productive forces. Moreover, Deng understands that progress toward more democracy and the establishment of legality are the necessary conditions for economic development. This implies a democratization of political life within the Party and the state, enterprises, and society. The population must be able to supervise state and enterprises. The Party must be able to better guide the reforms and thus to be more effective. For achieving these objectives, Deng is convinced that the Party should leave more space to the initiative of the economic actors. For Deng, this was not possible in the past because Party leaders, especially Mao, enjoyed too large a personal power. China must give up its traditional tendency toward authoritarian power, and opt for the democratic tradition and the 'rule of law'.[125] As has been stressed by Ronald Keith,[126] after the

excesses of the Cultural Revolution, the law was seen as an institutional protection against the personal power of the leaders. This is the first important move toward the 'rule of law' and away from the 'rule of man'.

Obviously, the movement toward more democracy had its limits, and China could not become, from one day to the other, a democracy according to the Western model. However, the introduction of the concept of legality and rule of law can be interpreted as the beginning of an evolution toward a Weberian legal-rational state, in which the supremacy of rules over interpersonal relationships constitutes the core of this type of power. And this is the interpretation of many Western scholars: the development of the economic system (especially if it introduces market mechanisms) must inevitably be sustained, if it is bound to produce the expected results, by a more rational organization of all parts of society; that is, by the rationalization of the state and of the behaviour of economic actors. According to Weber, the development of a rational economic system (be it a market economy or a planned economy) is based upon the capacity of economic actors to precisely calculate their behaviour and the behaviour of the other actors. As the state is also intervening in the economy, the behaviour of the state must also be taken into account, and must be foreseeable. The supremacy of law over interpersonal interactions is the condition for guaranteeing the predictability of actors' behaviour, including the state. Therefore, predictability of human behaviour is the condition for the development of the economy. For Weber this is the result of the general process of rationalization of Western societies, which is present in all sectors of private and public activities. But it is not at all certain that China will adopt all the main features of the Western model: we cannot exclude that China will eventually adopt some 'functional equivalents' to at least some of the Western features. This could be done either by inventing new features or by using the characteristics of the traditional Chinese culture.[127]

As I have already said, Deng has two main objectives. The first is to improve the economic performance of China, but he understands that to achieve this goal another instrumental objective is necessary; that is, a relative democratization, and a greater importance attached to legality. Secondly, these ideological and practical innovations had the function of restoring the prestige and the legitimacy of the Party with the Chinese population. Deng indeed seeks to mark a break with the authoritarianism of the Cultural Revolution which had largely diminished, if not destroyed, the credibility of the Party. Moreover, he seeks to secure the support of the population by offering not only more freedom but also concrete results, namely the improvement of the standard of living. Thus, the two constraints represented by power and economic performances are, in this case, compatible: the movement toward more democratization allows Deng at the same time to reinforce the prestige of the Party and to support the economic performance.

However, as I said before, the movement toward democratization and the release of thought are not without limits. Deng is ready to accept democratization only if it does not put in danger the power of the Party. The consequence of this is that the two constraints mentioned above are not always compatible. A strong tension appears for the first time during the episode of 'the wall of democracy'. From the

autumn of 1978 on, a wall in Beijing is being used by the inhabitants as a place where they can express their opinions: papers are posted on this wall calling for more reforms, as well as some criticisms of Stalin, and even of Mao. It just appears that these posters support, in fact, the way chosen by Deng, but at the same time the third plenum of the Party of December 1978, often considered as the starting point of the reforms and the attacks against the Cultural Revolution, had the effect of opening Pandora's Box. In 1979, manifestations and protest movements start. An increasing number of critical posters on the problem of the dictatorship in China are posted on the democracy wall. Some of them ask for the fifth modernization; that is, democracy. Xu Wenli, one of the organizers of the wall of democracy, affirms that 'four without five equals zero'; in other words, without the establishment of democracy, the reforms will inevitably collapse.[128] Deng cannot accept this extreme challenge to the power of the Party, and he orders the closing of the wall, and the major activists are then arrested. He then poses the limits to the release of thought by defining the Four Cardinal Principles, with which the reform policies must comply; that is, to keep to the socialist road and the people's democratic dictatorship, the leadership by the Communist Party, and Marxism–Leninism and Mao Zedong thought.[129]

One can see that the ideological discourse of Deng is somewhat changing direction: it is not only a question of marking a break with the Maoist era, of releasing the energies necessary to economic development, of democratizing the economic and political life of China, but above all of affirming that the power of the Party cannot be called into question. The Party appears as the only possible and plausible guarantor of the reform process. In the interpretation of Michel Hammer, 'the creed of Deng Xiaoping is without ambiguity: modernizations will be done within the framework of the regime and not against it'.[130] Clearly Deng is convinced that China, being such a vast and populous country, needs a strong ideology able to unite all the components of its population and to make the country stronger; and this explains the rationale for the first principle. The last principle is characteristic of a Leninist and elitist conception of power, which affirms the need for a strong leadership able to guide the populace; and this is understandable given, again, the dimension of the country.

The reformers justify their authoritarian approach to power by the need for ensuring the stability of the country. Deng affirms that 'without stability and unity, we do not have anything, and things like democracy and economic growth are out of the question'.[131] Stability, including the continuous exercise of power by the Party, is considered as the necessary condition for the continuation of economic reforms. One finds here the two fundamental Deng objectives.

### THE CAMPAIGNS AGAINST BOURGEOIS LIBERALIZATION

In 1979 Deng is still consolidating his political power, and he understands very well that by granting political freedoms too quickly his power would be threatened. He refers to the concept of 'bourgeois liberalization', introduced for the first time by Chen Yun in 1980[132] to describe the ideological relaxation that China knew

in recent years, and declares that it is necessary not to admire capitalism, to be opposed to the decadent bourgeois values, and to extreme individualism. This first campaign against bourgeois liberalization shows clearly on the one hand that the conservative forces are still powerful within the Party (and why Deng must pay so much attention to them) and on the other hand, that Deng is not ready to accept any challenge to the power of the Party.[133] But the attack against bourgeois values and individualism, which could be the origin of cleavages within society and polity, is not necessarily in contradiction with the conservative forces, as it can be considered as an attempt to safeguard the unity of the country, which is in fact a confirmation of the traditional Chinese value of unity to which both reformists and conservatives would certainly adhere.

A second campaign against bourgeois liberalization is launched by the conservative faction in 1986, after Deng was forced to accept the dismissal of Hu Yaobang, who had however been one of his most faithful allies, from the post of Secretary General of the Party. Deng then takes this second campaign on his account and affirms that the Party did not pay enough attention to the threats coming from the right, which endanger the stability of the country and thus the modernization of China. He thus reaffirms his idea that only social change 'from the top' can bring the necessary economic reforms.[134] This time the threat is not only perceived as coming from the right, but also from the left. Indeed, a too radical 'leftism' (understood as conservatism) undermines the economic reforms and leads to an impoverishment of the population, which favours the revolts from the right, and the illusions of bourgeois liberalization. Conversely, an efficient implementation of the reforms reinforces the national power and increases the people's standard of living, which leads to a greater popular support for the Four Cardinal Principles.[135] Therefore, this campaign (that is relatively limited and ends in 1987) does not constitute a return to the past.

### SPIRITUAL CIVILIZATION AND SOCIALISM WITH CHINESE CHARACTERISTICS

Notwithstanding the abovementioned comments, in order to counter the menace to the prestige of the Party posed by the attacks of the right, the reformers consider that it is necessary to help the population to support the Four Cardinal Principles by giving them a positive ideal. At the time of the 12th congress of the Communist Party, two important topics are put forward.[136] First, Deng recommends the establishment of a spiritual civilization; that is, not only the promotion of culture, science and education, but also of thought, of ideals, of communist discipline. Thus, whilst providing an ideal to the Chinese people, particularly to the young generation, spiritual civilization above all had the role of serving as a security, preventing democratization experiments from escaping the control of the leaders. It is feared that the opening up of China would end in an erosion of socialist ideals and their replacement by capitalist ones. Thus, the threat comes at the same time both from the right and the left.

Second, Deng defines the concept of socialism with Chinese characteristics. Socialism cannot be applied everywhere in the same way. Each historical case requires an adaptation of the socialist ideas. This concept is characteristic of Deng's

pragmatism: socialism is not a set of proposals to be applied as such; it is a question above all of adapting the means to the goals. Deng considers, thus, that in the first stages of socialism, all must be done to eliminate poverty and to improve the standard of living of the Chinese people; if not 'how could socialism be able to triumph over capitalism?'[137]

These two points are essential for Deng because they reinforce the legitimacy of his power. Indeed, the reformists realize that economic development is not sufficient to ensure the legitimacy of the Party's leadership. The reforms launched by Deng (which can be interpreted as a transition — even if partial — toward market economy, or at least toward some market mechanisms) run the risk of implementing the development and diffusion of rightist and bourgeois ideas, which would call into question the legitimacy of the Party. This is shown in the campaigns against bourgeois liberalization discussed above. The use of words is very important here. 'Socialism' is to some extent the fundamental axiom of the Party, its identity, its 'raison d'être'. It is what appears in the Four Cardinal Principles: the socialist way and the Marxist–Leninist–Maoist thought are the principles upon which the actions of the Party are based. In the same way, the 'bourgeois' term, in the tradition of Marx, is at odds with socialism. To say that the way chosen by the Party is 'bourgeois' is to question the foundations of the Party. In order to justify his policy of reforms, which borrows at least partly the way of the market economy, Deng redefines the Socialist way, by affirming that Chinese reality requires a certain degree of flexibility of the concept, flexibility made necessary by the pragmatic way he has chosen. It is thus at the same time the power of the Party, his own power within the Party, and the continuation of the course of reforms that are always at the heart of these new ideological formulations.

This redefinition of socialism is linked to the discussions around the 'first stage of socialism' at the time of the 13th congress of the Party in 1987. That year, Deng affirms that China is not yet ready to engage in the socialist way.[138] This assertion was not made public, but provoked some very animated discussions within the Party. Its meaning is that the economic forces of China are still largely underdeveloped, and this prevents the country from fully engaging into the socialist way. Moreover, this redefinition constitutes in some way a return to Marx, who affirms that capitalism is a preliminary stage necessary toward socialism. Capitalism, and the class that developed it (the bourgeoisie), is for Marx revolutionary, and he admired it very much.[139] The bourgeoisie has created more productive forces in 100 years (at the time when Marx writes the Manifesto) than have ever been produced before in history.[140] It has destroyed feudalism, and with those same weapons, it will destroy itself. It thus creates the same weapons which will lead to its defeat (e.g. overproduction) and at the same time the men who will carry them: the proletariat.[141] As Marx says, '[the bourgeoisie] creates its own tombs'.[142] In this conception of history, there is some kind of determinism: for Marx socialism cannot appear before the bourgeoisie has fulfilled its role. However, Mao had engaged directly in the socialist way. For Deng, China must initially find a functional equivalent to capitalism capable of creating a commodity economy before being ready for socialism.[143]

This clarifies the significance given to 'socialism with Chinese characteristics': it is a question for China of finding a way different from both capitalism and the other socialist countries. It represents a return to economic determinism: socialism can be reached only if certain conditions related to the production forces are fulfilled. This new vision of socialism is clearly in line with Deng's reforms, and is thus used to legitimate them, even to encourage them: above all, it is a question of developing the economy, even if inequalities must result from this, rather than to attain immediately the goal of a society without classes.[144]

This new ideological line makes it possible to reconcile, at least for a certain time, socialism and some market mechanisms. As comprehensive planning undermines the development of the productive forces, it is thus necessary to combine planning with some elements of a market economy.[145] To mark a clear distinction between socialism and capitalism, Deng affirms that the market economy is no more than a method for developing the economy, and is thus a neutral device in terms of values. He thus succeeded in integrating Western concepts into his discourse and his program of reforms by discharging them from any ideological connotation.[146]

## THE DIFFICULTIES IN MANAGING THE PACE AND SCOPE OF THE REFORM PROCESS: THE ROAD TO TIANANMEN

Notwithstanding the abovementioned comments, divisions within the Party are still present. From 1978 to 1984, the struggle of the reformists against Hua Guofeng and the Maoists has been synonymous with unity within the reformist faction.[147] The fight against a common enemy has brought together very different tendencies. Once Hua Guofeng has completely lost his power, divisions appear within the reformists, and the 1980s are the theatre of recurrent combats between the various components of an increasingly divided coalition.[148] One finds on one side partisans of modest reforms, directed by Chen Yun, and on the other side more radical reformists, led by Deng, Hu Yaobang and Zhao Ziyang.[149]

It is in this context that a campaign is launched in 1983 against 'spiritual pollution'; that is, against a 'subversive' interpretation of Marx aimed at promoting democracy, and against the bourgeois thought. This campaign was clearly anti-reformist, and anti-rightist. In 1984, Deng and his allies launch a new campaign for the release of the thought and a greater freedom in education, arguing that a solid scientific base is the key for economic development. Positions with responsibilities must be given to intellectuals. Any opposition to this vision is seen like a leftist threat. Moreover, a new priority is fixed: to enrich the peasants. They are encouraged to become prosperous. An ideological campaign is launched for the cadres of the Party to promote the benefits of the enrichment of the peasants: 'do not fear prosperity'. And the Party assures that such innovations are perfectly compatible with Marxism, and that there is no question of engaging into a capitalist way. In 1985, a new cycle starts with the launching of new reforms. In 1987, the opponents to the reforms convince Deng to purge Hu Yaobang.

Even if the strategy and the discourse adopted by Deng during this period may

look quite erratic,[150] it is nevertheless evident that this apparently contradictory course can be interpreted as the result of a rational calculus seeking to achieve the fundamental objectives, economic performances and consolidation of power. Sometimes the consolidation of power requires taking decisions contrary to economic reforms. On the other hand, a too rapid race toward economic reforms may very well endanger the power of the Party and of its supreme leader. And this brings us to the Tiananmen events of 1989.

The dialectical opposition between radical and moderate reformists culminated in 1989 with the Tiananmen events. The death of Hu Yaobang was followed by students' demonstrations, demanding the recognition of Hu's merits as a reformer. Soon the demonstrators ask for less corruption, more freedom of the press and more democracy. These events are the consequence of the fundamental changes brought by a decade of reforms. Soon workmen, businessmen, and cadres of the Party join the demonstrations. Zhao Ziyang, at that time Secretary General of the Communist Party of China, himself announces his sympathy for the students. Zhao Ziyang had been Premier of the People's Republic of China from 1980 to 1987, and one of the major Chinese high officials favourable to reforms, as well as one of the most fervent supporters of Deng Xiaoping. Nevertheless, in May, Zhao is excluded from power. In June, the army intervenes and puts an end to the demonstrations. How can we interpret these events? Were they a real challenge to the power and policies of the Communist Party, and therefore a clear demonstration of the failure of Deng to reconcile economic reforms and consolidation of power?

For Zhang Weiwei,[151] the decision of Deng to employ force to subdue the revolt is clearly a rational decision of an actor who feels that his own power, as well as the power of the Communist Party, is called into question. Deng remains convinced of the paramount importance of political stability for the continuation of economic reforms, and is ready to use all the means necessary to arrive at his ends. Therefore, stability first (and by all means) if it is a condition for continuing the reform policies that will improve the standard of living of the Chinese people and the power of China in the international arena.

But do these events mean a true erosion of Deng's and the Party's power? Michel Hammer clearly distinguishes the concept of revolt from that of revolution.[152] Following Lenin, he proposes to define three conditions necessary to the break out of a revolution. First, there should be a situation necessary for the outburst of the revolution; that is, 'society should be already in the process of decomposition, undermined by chaos'.[153] Second, one also needs an organization; that is, a network affording the revolutionists some solid support. Third, there should be a will; that is, a strategy aiming at reversing the power. For Michel Hammer, none of these conditions are fulfilled at the time of the Tiananmen events. The demonstrators are revolted, and like Camus's revolted man, they say 'no'.[154] By his refusal, the revolted man affirms the existence of a limit that the other cannot cross, of a border separating the tolerable from the intolerable.[155] But the man of the revolution says 'yes', he affirms the will to replace the existing order by a new order, he is moved by a political project, 'he sees beyond the riot'.[156] The crisis of Tiananmen is the expression of a disappointment, of a discouragement, even of a rage against

corruption, inflation, against a power which refuses any freedom of expression. But it is a largely fragmented revolt; that is, a revolt that not everybody is in favour of. There is no revolutionary situation. Moreover, the Chinese civil society is not organized politically; it has been dominated by political power for too long. Lastly, there is no will, no true project aiming at reversing the existing power. The students of Tiananmen Square are revolted, but they are not revolutionaries.

According to this interpretation, we are led to think that this crisis, in spite of the indignation which it created in the West and the difficulties which resulted for the Party, did not constitute a fundamental challenge to the power of the Party, and thus it does not constitute a failure of the strategy of Deng Xiaoping. Moreover, as Michel Hammer remarks, if the repression was bloody and scandalous for many Western observers, it was relatively short in time, and not very wide, and in any case incomparable with what happened at the time of the Cultural Revolution.[157] But what have been the consequences of the Tiananmen events on the course of reforms?

## THE ACCELERATION OF THE REFORM PROCESS: BUILDING A SOCIALIST MARKET ECONOMY

Far from undermining the efforts of reforms, the demonstrations on the Tiananmen Square and the repression which followed gave a new dash to the reforms. For Wang Hui, Tiananmen has not caused a fundamental change of the way followed since 1978.[158] Reforms implemented since the beginning of the 1990s were even stronger than ever. Deng draws one conclusion from these events: it is necessary to speed up the reforms toward a market economy.[159] The defeat of the opponents leaves the Party free to some extent to pursue the reforms trend. Deng declares in 1989: 'Power must be very powerful or it must cease to exist. […] It was our duty […] to tear off the poisonous plants: we did it. China continues its long march.'[160] Deng calls at the same time for several years of stability, showing his will not to tolerate expressions of opposition to the power of the Party, and his will to accelerate the reforms.[161] It reaffirms in 1992 with force what he had already done in the discussions on 'socialism with Chinese characteristics', namely that 'the true nature of socialism is to release the productive forces'.[162]

In a famous tour which he carries out in South China in 1992, Deng gives his interpretation of the fall of the Soviet block: it is above all the economic failure of the USSR which led to its fall. It is thus necessary to fight the leftist opponents to the reforms, who are likely to slow down the latter, with the risk of reviving the rightist opposition.[163] At the end of 1992, at the time of the 14th Party Congress, Deng affirms that the central task of the Party is 'to develop a socialist market economy'.[164] The end of the 1980s and the beginning of the 1990s see the arrival of the third generation of leaders with Li Peng and especially Jiang Zemin. Deng Xiaoping, who dies in 1997, will not after 1992 have a paramount role in the development of public policies, nor in the ideological orientations of the Party. Nevertheless his leadership has never been challenged by the leaders of the third generation, to the point that Deng practically appointed Jiang Zemin's successor, Hu Jintao, who was officially appointed, well after Deng's death, at the 2002 Party Congress.

In conclusion, we can affirm that Deng proved to be, since 1978, a skilful tactician, succeeding little by little in affirming his power within the Party and thus in imposing himself as the supreme leader guiding the public policies and the ideological orientation of the Party, reinforcing the legitimacy of the Party, launching a vast program of economic reforms which are leading to an impressive growth of the Chinese economy. To seek at the same time the consolidation of power and launching important economic reforms is not an easy task. These two objectives often turn out in practice to be contradictory, as is demonstrated by the events of the wall of democracy, the various pro and anti-reformists campaigns, the important changes of Deng's policies and ideological orientations, and finally the Tiananmen events. The release of energies necessary to the development of the economy sometimes raised in parts of the population the hope for political reforms. But, as the situation after Tiananmen shows, contradictions have never been important enough to fundamentally call in question the line followed by Deng. The two objectives laid down by Deng appear even sometimes perfectly compatible: the Party obtains its legitimacy thanks to the realization of economic performances. This is the profound meaning that it is necessary to give to the formulas 'socialism with Chinese characteristics', or 'socialist market economy'.

Socialism can be realized only with productive forces that are sufficiently developed, and to develop them one needs a market economy or at least some market mechanisms, that the leaders endeavour not to equate with capitalism. By the promotion of the process of rationalization, and the introduction of elements of market economy, but also by assuring the country's political stability and by consolidating the power of the Party, Deng Xiaoping has prepared the ground for a period of economic growth without precedent which China knows since the 1990s.

## JIANG ZEMIN'S CONTRIBUTION TO CPC'S IDEOLOGY: THE THEORY OF THE THREE REPRESENTS

What has been the contribution of Deng's successor, Jiang Zemin, to the innovations of Chinese political culture? In the previous part of this chapter, we have seen that Jiang is totally in line with the ideology defined during the Deng era, and we can consider that to a large extent he has implemented policies in line with Deng's idea of reforms.[165] Nevertheless, he is famous for having developed a new theory, the theory of the 'Three Represents'. At the Party Congress of 2002 this theory has become, along with Marxism–Leninism, Mao's thought and Deng's theory, the recognized ideological basis of the Party. This theory affirms that the Party represents the advanced social productive forces, the advanced culture, and the interests of the overwhelming majority of the Chinese people. This is quite a radical change compared to the previous ideology that considered that the Party represented the interests of the proletariat. It is difficult to evaluate whether the 'Three Represents' have acquired a stature equal to that of Mao's and Deng's thoughts. Whereas 'Mao thought' and 'Deng theory' are always mentioned without any qualifying adjective transmitting thus the message that their importance is self-evident, in the official terminology Jiang's theory is always preceded by

the adjective 'important', and this gives the impression that its importance needs to be reaffirmed every time one refers to it. In the West Jiang's theory has been welcomed at best with a polite acknowledgement, at worst with some sarcasm. Nevertheless, I think that this theory must be appreciated in the framework of the profound changes Chinese society has experienced since the beginning of reforms as a consequence of the success of the development of the economy and of the standard of living of a considerable part of the Chinese people.

As I will show in the next chapter, the impressive increase of GDP has been realized at the expense of a fair distribution of the new wealth so created. The consequence is that, although the general situation of the Chinese people has been improved, the old egalitarian social structure has been replaced by an increasing non-egalitarian one, with the emergence of new social strata, categories, or even social classes. In particular, knowing what happened in the West after the Industrial Revolution and the development of market economy, an attentive observer of China reforms could have forecast the emergence of a new class of entrepreneurs whose values would not necessarily be in tune with the values of the leading political Party leadership.[166] In this framework, and considering that the values of unity and harmony are still at the core of the Party ideology, the 'Three Represents' can be appreciated as a rational device whose goal is to reconstruct and reconcile within the Party the social fragmentation that has arisen within Chinese society, and to prevent the emergence of contradictions that may result from it and could jeopardize the trend of reforms under the leadership of the Party. It is well-known that Jiang Zemin, at the moment of making his theory public, has at the same time addressed an appeal to the private Chinese entrepreneurs inviting them to join the Party. Although it is difficult to exactly evaluate how many private entrepreneurs have responded to the invitation, informal evidence collected in China proves that many private entrepreneurs have in fact joined the Party, and some of them sit in several official bodies, such as the national parliament. Once again, what may be considered from a Western perspective as a contradiction in terms (and for some certainly also in reality) looks in fact like a rational decision when replaced within the Party's ideology.

Moreover, in his speech at the 2002 Party Congress Jiang Zemin integrates the theory of the 'Three Represents' within the Party's ideology by considering it as the fundamental strategy for reinforcing the Party and for strengthening the road to reforms. Jiang affirms that the theory of the Three Represents is a powerful theoretical weapon for strengthening and improving Party building and promoting self-improvement and development of socialism in China.

> [Moreover,] to carry out the important thought of Three Represents, it is essential to push forward Party building in a spirit of reform and instill new vitality in the Party. Attaching vital importance to and strengthening Party building is a magic weapon, with which our Party has grown from a small and weak force to a large and strong one, risen in spite of setbacks and matured gradually in surmounting difficulties. As the historical experience of the Party over the past 80 years and more shows, the most important point is that we must

> build up the Party according to its political line, central task and general goal for building it with a view to enhancing its creativity, cohesion and fighting capacity.[167]

Before we turn to Hu Jintao's contribution to the official Chinese political culture, let us once again remark on the impressive capacity of Chinese leaders to combine elements inherited from the Imperial past, Marxist–Leninist features of the Mao era, and the new values upon which market mechanisms are based. This capacity is no surprise to the sinologist who has studied the long history of Chinese thought. Nicolas Zufferey has drawn our attention to the fact that Chinese political philosophers have always felt the need to place the novelties they wanted to introduce in the mouth of the great philosophers of the past. This way of presenting new ideas was in fact a rational choice in order to appear more convincing than if they were simply proposing their new ideas without any reference to their predecessors.[168] Dealing with the ostracism that Wang Chong's ideas faced in the past (as I have already mentioned), Zufferey further explains that:

> this distrust toward originality and innovation can be explained by the conservatism that is typical of so-called traditional societies, but also for reasons more linked to the Chinese particularities. […] To invent, it is to suggest that the models of the past require some adjustments, it is to question their perfection, it is to fail in filial piety to the ancestors.[169]

We have here an additional proof of the persistence of cultural traits of the past within Chinese culture today. Nevertheless, I will show in the next paragraphs that Hu Jintao legitimizes the new policies by referring less than his predecessor to the values and leaders of the past, and that he relies more on some new values (especially innovation) that are not in tune with the traditional values of filial piety toward the ancestors inherited from the Empire.

## HU JINTAO'S CONTRIBUTION TO THE CPC'S IDEOLOGY: EQUITY, JUSTICE, INNOVATION AND SCIENTIFIC DEVELOPMENT

For the purpose of appreciating Hu's contribution to the CPC's ideology it is interesting to compare Jiang Zemin's and Hu Jintao's strategies for legitimizing their policies. I will do this by analyzing their speeches at the National Party Congresses of 2002 and 2007.[170] I propose to take into consideration references to four legitimacies, and first of all to Marxism–Leninism. This seems quite a rational reference for leaders of a party that has introduced Marxism–Leninism as one of its 'Cardinal Principles'. Second, I will consider references to science. This, too, seems to be a normal reference by Chinese leaders for legitimizing power as Marxism is considered by its followers to be a scientific theory of history; moreover the 'Four Modernizations' defined by Deng clearly imply the use of a scientific approach to modernization. Third, I will make references to the Chinese situation or, in Deng's terminology, to 'Chinese characteristics'. Finally, I will consider references to the

new legitimizing values; that is, the balance between economic efficiency and equity. For purpose of identifying references to these four sets of values in the discourse of Jiang and Hu, I will use a number of indicators. For the traditional Marxists' legitimacy I will consider references to Marxism, Marxism–Leninism, to Mao, to Deng, and to democratic centralism. For scientific legitimacy I will take the use of words like science, scientific, and scientific development. For the conformity to Chinese characteristics I propose to take: Chinese characteristics, stability, harmony and harmonious, and innovation. Using innovation as an indicator of the reference to Chinese characteristics may look a bit strange, but this corresponds quite clearly, especially in the discourse of Hu Jintao, to the assertion (or reassertion) that China's fundamental goal is to become a major global player in the course of the twenty-first century. The consequence is that by considering this goal as de facto China's fundamental policy goal, this goal becomes 'the new reality of Chinese characteristics'. And this will imply that if China wants to play a leading role in the international system it has to cease to imitate the West and start instead to invent its own ways of managing its society in all domains and of influencing the course of international affairs. This last aspect of the third legitimacy constitutes the bridge toward the fourth one; that is, the new legitimacy based upon the balance between economic efficiency and equity. For this new legitimacy I will use the following indicators: efficiency, market, equity, justice, law and its derivatives, namely 'ruling by law' or 'according to law' and respecting the 'rule of law'. Let us see what we discover by applying this methodology to Jiang's and Hu's speeches at the 2002 and 2007 Party Congresses.[171]

Table 1.1 shows that the reference to the traditional legitimizing values of the Party are present in the two speeches, although they are slightly more numerous in Hu Jintao's speech. Nevertheless, it is interesting to remark that whereas Jiang mentions his predecessor (Deng Xiaoping) 16 times, Hu mentions Deng only 11 times, and only twice he mentions by name his predecessor (Jiang Zemin).[172] It seems therefore that for Hu Jintao the reference to the values of Marxism–Leninism and to the leaders who have developed the Marxist ideology of the Party is less important for the purpose of legitimizing his policies. This does not mean that these values are of no importance for Hu Jintao, as they are nevertheless mentioned several times in his speech. What does this mean? Does it mean that Hu Jintao planned to refer to other legitimizing values, and therefore he had to limit the time devoted to the traditional Marxist values in order to have sufficient time to develop the new values of his choice? This is what we will discover by taking into consideration the other three legitimacies.

Table 1.2 shows that both Jiang and Hu refer to science as a legitimizing value, but a second difference appears: Hu is the only one to mention scientific development in relation to social harmony. This difference will become even more striking when we consider the following legitimizing values.

Table 1.3 allows that the differences between the two Chinese leaders are even more profound. Although both mention the necessity to take into consideration the Chinese characteristics in the process of implementing the development strategy, as well as the importance of safeguarding stability in the development process,

*Table 1.1* Traditional Marxist legitimacy in the discourses of Jiang Zemin (November 2002) and Hu Jintao (October 2007) at the Party Congresses

| *Number of references per indicator* | | | |
|---|---|---|---|
| *Jiang* | *Hu* | *Difference Hu–Jiang* | *Indicators* |
| 13 | 19 | + 6 | **Marxism**<br>of which: Marxism–Leninism (Jiang 5, Hu 3) |
| 6 | 8 | + 2 | **Mao**<br>of which: Mao Zedong thought (Jiang 4, Hu 5) |
| 16 | 11 | – 5 | **Deng**<br>of which: Deng Xiaoping theory (Jiang 10, Hu 8) |
| 3 | 2 | – 1 | **Democratic centralism** |

*Table 1.2* Scientific legitimacy in the discourses of Jiang Zemin (November 2002) and Hu Jintao (October 2007) at the Party Congresses

| *Number of references per indicator* | | | |
|---|---|---|---|
| *Jiang* | *Hu* | *Difference Hu–Jiang* | *Indicators* |
| 22 | 59 | + 37 | **Scientific** |
| 29 | 11 | – 18 | **Science (or Sciences)**<br>of which: science and technology (Jiang 9, Hu 7) |
| 0 | 14 | + 14 | **Scientific development**<br>of which: **scientific development + social harmony**<br>(Jiang 0, Hu 6) |

Note: in Chinese there is only one word for science and scientific. I make the distinction, as I use the English translation, between the two usages of the word: when it is used as a qualifier, and when it is used as a substantive.

the necessity to realize harmony and a harmonious society is mentioned only six times by Jiang and 33 times by Hu. Even more striking, whereas Jiang mentions innovation 25 times, but mainly referring to 'theoretical innovation', 'scientific–technological innovation' and 'institutional innovation', in Hu's speech innovation is mentioned 46 times and appears to be one of the most central and important values. Hu develops a very complex discourse on innovation by first considering that it must be linked to the reform process, and second that it must be independent from other sources of inspiration. Very likely he refers here to the fact that in the past China has above all imitated foreign countries. For Hu, in future innovation should be initiated by Chinese people. Moreover, Hu stresses that independent

innovation should be implemented in a large number of important domains: rebalancing between regions, general management, banks, enterprises and their modernization, army, science and technology, Chinese investments abroad, and use of Foreign Direct Investments (FDI) in China. This is clearly a sign of the opening of a new era in the development of Chinese society. This new trend is even more evident when we turn to the fourth and last source of legitimizing the role and policies of the Party.

Table 1.4 shows that both Jiang and Hu mention economic efficiency, market and law. The striking differences appear when we look at the other indicators of the new legitimacy. Contrary to Hu, Jiang never mentions 'equity', and refers to 'justice' only three times, these references being limited to judicial justice. Moreover, Jiang mentions 21 times the necessity of 'ruling by law' or 'according to law', but only three times he refers to the 'rule of law', and these last references are always considered together with the building of a socialist state (twice) or the necessity to combine it with the 'rule of virtue'.[173] Hu Jintao is much more assertive about the necessity to implement these values: he mentions equity 12 times and social equity 8 times, refers to justice 9 times and links social equity and justice 5 times.

Moreover, Hu mentions only once the rule of law in conjunction with the building of a socialist country and, even more interestingly, he considers that the rule of law is a fundamental principle on its own merit (5 times) and he considers in another passage that the rule of law constitutes the essential requirement of socialist democracy. Of course this does not necessarily mean that Jiang is not sensitive to equity and justice. It simply shows that there has been a change in the importance

*Table 1.3* Legitimacy based upon the respect of Chinese characteristics in the discourses of Jiang Zemin (November 2002) and Hu Jintao (October 2007) at the Party Congresses

| *Number of references per indicator* | | | | |
|---|---|---|---|---|
| *Jiang* | *Hu* | *Difference Hu–Jiang* | *Indicators* | |
| 30 | 57 | + 27 | **Chinese characteristics** | |
| 22 | 18 | – 4 | **Stability** | |
| 6 | 33 | + 27 | **Harmony or harmonious** | |
| 25 | 46 | + 21 | **Innovation** | |
| | | | of which for Hu: | 12 with "independent", and |
| | | | | 7 with "reform" |
| | | | of which for Jiang: | 10 with "theoretical", |
| | | | | 7 with "scientific–technological", and |
| | | | | 4 with "institutional" |

*Table 1.4* New legitimacy: balance between economic efficiency and equity in the discourses of Jiang Zemin (November 2002) and Hu Jintao (October 2007) at the Party Congresses

| *Number of references per indicator* | | | |
|---|---|---|---|
| *Jiang* | *Hu* | *Difference Hu–Jiang* | *Indicators* |
| 9 | 7 | – 2 | **Efficiency** |
| 48 | 38 | – 10 | **Market**<br>of which: socialist market economy (Jiang 19, Hu 11) |
| 0 | 12 | + 12 | **Equity**<br>of which 8 with social equity |
| 3 | 9 | + 6 | **Justice**, of which 5 with social equity and justice |
| 49 | 65 | + 16 | **Law** |
| 21 | 18 | – 3 | of which: **Ruling by law or according to law**, and |
| 3 | 13 | + 10 | **Rule of law** |

that Hu is giving to the core values of official Chinese ideology. This is a clear sign that the new Chinese leadership has taken very seriously the contradictions that have emerged in Chinese society in the process of modernization under Deng and Jiang. Furthermore, at least at the ideological and political level, it also shows that the new Chinese leadership is ready to take several serious measures in order to rebalance Chinese society. Hu says very clearly that it will be necessary to manage the relationship between efficiency and equity in the distribution of income by market mechanisms, and that the Party–State should pay increasing attention to the redistribution of income.[174] In the third chapter I will examine to what extent these measures have been effectively implemented.

The numerous references to harmony and stability (especially in Hu's speech within the second and third legitimacies mentioned above) seem to indicate a revival of traditional values inherited from the Imperial era. And there is certainly some truth in this statement. Whereas for a long time since the creation of the CPC Confucian values have been practically banned from the official ideology, this is not any more the case as is witnessed by the increasing interest of both Chinese intellectuals and political leaders in the values of Confucianism, especially for (re)affirming the originality of Chinese political culture and creating a barrier to the Westernization of Chinese society.[175] For the Western scholar who is well acquainted with the influence that Greek philosophy and Roman law exert still today on Western societies, this revival of Confucian values comes as no surprise. But as is the case in the West for the Greek and Roman inheritance, the revival of Confucian values in China is to be placed and interpreted within the context of today's situation. Whereas during the Imperial era the values of stability and harmony were instrumental in basically maintaining the structure of Chinese society

as it was, these same values are today used in the framework of a development strategy that aims at transforming China to an extent that perhaps even the present Chinese leadership cannot fully predict.

## Conclusion

At the end of this chapter, we can conclude that during the transition from the Imperial, the first Republic, and the Maoist eras to the Deng, Jiang and Hu eras, the Chinese leadership has constantly adapted its ideology and development strategy not only to the Chinese situation and the Chinese characteristics, but also to the international situation as well as to the consequences of the impact of policies implemented in the previous eras, and has realized the adaptation of the ideological base of the Party thanks to a pragmatic approach. At the same time, we should not forget that the fundamental goal of the various Chinese leaderships has constantly been to restore China as a world power. The successive Chinese leaderships have taken the measures they thought necessary for attaining this final goal (and very likely as soon as possible) and have adopted the corrective measures a soon as the impact of the previously implemented policies run the risk of jeopardizing the realization of this fundamental goal. From the point of view of many Western scholars and observers of Chinese society, the strategy of the Party in constantly redefining its ideological base is interpreted as a device for maintaining power. This is of course an interesting interpretation, but for me not the most important one. Apart from the fact that I do not know of any political system in which parties and politicians in power do not want to retain power, I am convinced that the most important question is to determine to what extent a party or a coalition of parties (no matter how they gained power) contributes to the improvement of the wellbeing of the people. Of course this evaluation can be based upon a variety of indicators whose choice is not always purely scientific but based upon some ideological biases. In the following chapters I will come back to this important question and try to propose an answer as fair as possible.

# 2 Deng's strategy of economic development

## Introduction

After the death of Mao on September 9, 1976, the Chinese political system experienced a very serious crisis. Mao had highly personalized political power in China and consequently it was he who was the authority which held the political power rather than the Communist Party. His successor and protégé Hua Gofeng was not able to fill this vacuum. This has introduced on one side a period of instability into Chinese politics, but on the other side it has represented an opportunity for the reformist forces within the Communist Party.

At that time, China was isolated from the rest of the world, the growth rate and GDP per head were rather low in international comparison. The economic backwardness of China was even more visible when compared to the other Asian countries which knew — thanks to proactive state developmental policies and their integration into the world economy — a remarkably strong economic growth. It is in this situation of political instability and economic backwardness that Deng Xiaoping launched his project of reforms.

## 1 The fundamentals of Deng's strategy of reforms[1]

Deng Xiaoping is generally regarded as the greatest leader of the Communist Party of China during the 1980s and the major artisan that led China out of the dramatic years of the Cultural Revolution and guided the country toward modernization and economic growth.[2] Deng was born in 1904 in Sichuan province. At the age of 16, he left for France where he became acquainted with the modes of industrial production, and met some of the people who were going to hold prominent functions within the Communist Party of China. After his stay in France, Deng left for Russia where he got acquainted with the thoughts of Marx and Lenin and where he was trained as a political activist.

After he returned to China, Deng joined the Chinese central Soviet of Beijing in 1931 and became a supporter of Mao Zedong, who regarded him as 'one of the most capable and reliable lieutenants'.[3] Between 1938 and 1952, and especially during the Sino–Japanese war and the civil war, he continued with success his military career within the People's Liberation Army. After the war, Deng governed his native province of Sichuan before being convened to Beijing in 1952.

During the Mao era, Deng became inter alia Vice First Minister and Minister of Finance. In the mid-1950s, Deng became Secretary General of the Politburo of the Communist Party. In 1966, following the Cultural Revolution, his relations with Mao worsened and Deng was purged and designated as the second representative of the capitalist way.

Thanks to his good relations with important leaders of the Party, Deng was rehabilitated in 1973 before being purged again as reactionary in 1976. While Deng accepted on one hand the Party's discipline and his purge as a necessity for the good functioning of the Party, on the other hand he was waiting for another possibility to gain support for his ideas about the future of China.[4] This opportunity was offered to him after Mao's death in 1976. Deng Xiaoping was rehabilitated and succeeded in imposing his ideas of reform although he never occupied either the post of Prime Minister or that of Secretary General of the Party. However, it was he who in fact directed the Chinese leadership between the end of the 1970s and the beginning of the 1990s thanks to his charisma and to his good relations within the Chinese Party elite. In 1990, Deng withdrew from the presidency of the Military Commission, thus giving up his last public office. Somebody said, with a fine sense of humour, that the highest position Deng held in 1992 when he relaunched the reform process after the stagnation that followed the 1989 events at Tiananmen, was the presidency of the Chinese Chess Association.[5] This says very well how great has been the authority of this giant of modern Chinese history. Deng Xiaoping died on February 19, 1997 a few months before the Party Congress of September of that same year.

Before we go any further discussing the goals pursued by Deng, we must take into consideration the historical perspective within which all Chinese rulers have been embedded, since the last decades of Imperial power. Very often Western observers of Chinese politics forget the deepest reasons that orient Chinese leaders, and seek explanations for the nature of the present regime that, in spite of considerable changes during the reform era, is still today considered as an authoritarian (if not a totalitarian) regime whose rulers are mainly oriented toward the goal of maintaining their power over Chinese society. There is no doubt that China is one of the greatest civilizations mankind has produced through history. Nevertheless, the value of this great civilization has been dramatically challenged during the nineteenth century when Western powers imposed by brute force the opening up of the Chinese economy for the sake of pursuing their own interests (be it their national interest or the interests of their economic elite). The most striking and symbolic event of this aggression has been the destruction of the Summer Palace by the Anglo-French army in 1860. Moreover, the humiliation attained its apex when China lost the war against Japan toward the end of that century. From that time on, the constant and paramount goal of every Chinese leader (Emperor, Sun Yat-sen, Nationalists, and Communists) has been to find means to restore the greatness and power of China. As Westerners, we must understand that all the other goals pursued by Chinese leaders are subordinate, or at least closely linked to this one.

Bearing that in mind, I will consider that two constraints were facing Deng at the end of the Cultural Revolution: on the one hand, he was confronted with the

necessity to improve the performance of China's economy, and on the other hand he had to re-establish the legitimacy and leadership of the Communist Party, as well as his own personal power within the Party in order to impose his ideas of reform against the opposition of the conservative faction. The improvement of the economic performance is essential because of the backwardness of the Chinese economy and because of the deficit of legitimacy of the Party within the population created by the Cultural Revolution. Deng considers that a strong economic performance, especially if sustained by technological progress, is essential for assuring national security on one side, and on the other side for restoring the legitimacy of the Party, as the Party will be evaluated on its capacity to put goods and services at the disposal of the population. So Deng works simultaneously toward the realization of two goals: the consolidation of Party power and a better economic performance. What distinguishes Deng as a rational actor is his pragmatism. Nevertheless, I follow Goldmann's interpretation when he considers that Deng was during his entire political career 'strongly pragmatic but not a pragmatist', and a convinced revolutionary who tried to ensure that the Communist Party of China could maintain its power by advancing the modernization of China.[6] 'For Deng Xiaoping, Communism was more an organizational rather than an intellectual response to the problems that China faced in the second half of the twentieth century.'[7] Thus, if we follow this interpretation, it seems that in spite of his ideological beliefs, Deng seeks to find rational means for realizing the two abovementioned goals. In other words, in spite of Marxist ideology that was dominating the Party, Deng's pragmatism drives him to introduce into the Chinese economy some market mechanisms (the cat that catches more mice). And, according to many Western observers of China, this will inevitably lead China toward a system similar to the Western one.

Contrary to this interpretation, we should not forget that beside the rational dimension of Deng's strategy, there were (and still are) several ideological elements in Deng's political culture that have not (and will not) necessarily lead to the adoption and implementation of public policies aimed at transforming China along the characteristics of the Western model. I will come back to this important point in the last chapter of this book. For the moment it suffices to mention that it is clear that the emphasis put by Deng on the development of the economy has necessitated important changes in other elements of Chinese society, and above all the transformation of public administrations into organizations based more upon technical and scientific competences than on conformity to the Marxist–Maoist ideological line of the Party. This is in fact the major aspect of Deng's rejection of the Cultural Revolution. Our interpretation of this important phase of post-1949 China, amongst other possible and plausible interpretations, is that by launching the Cultural Revolution Mao wanted to fight against three bureaucracies that were in the process of gaining power and stealing power from him, and deviate from his ideological line: the Party, the Government and the intellectual bureaucracies. But Mao's strategy for governing in a permanent state of Revolution was clearly in contradiction with Mao's aim of restoring China's power by developing its economic structure. Mao's way of managing the state and Chinese society necessitated

hiring leaders (both politicians and civil servants) who shared his ideology (no matter how he defined it); in other words, they ought to be 'red'. As Max Weber has demonstrated in his writings on economy, polity and society, the development of the economy (be it in the form of market economy or command economy) will inevitably need the development of bureaucracies in all parts of society; that is, a special type of organization based, amongst other characteristics, upon technical competencies. Therefore, bureaucrats would inevitably acquire power and, at the end of the process of bureaucratization, they would govern instead of the politicians.[8]

In order to achieve the consolidation of power Deng will use two means: a fundamental but subtle revision of the official political discourse of the Party (as I have explained in the first chapter), and the building of alliances within the Chinese leadership. For achieving economic performance he will promote reforms in the functioning of the economy, by introducing market mechanisms. By putting into practice the pragmatism mentioned before, Deng starts with experimenting market mechanisms within a few special economic zones. Then he evaluates the results and finally exports the good practices to other regions and so forth, in the framework of a gradual, incremental strategy.[9] By doing this, Deng puts the emphasis on facts; that is, on verified means and results, and not on ideological a priori. Moreover, the Western cat that caught so many mice in the West is tested in the Chinese context of the special economic zones. As soon as it is proven that he can also catch a lot of mice in the Chinese context, it is sent to catch mice in other areas of the country, and the poor performing cat (planned economy) is progressively, even if not totally, abandoned. In our opinion it would be correct to say that the scope of planning is progressively limited to the strategic (or core) functions of the state; that is, to sustaining a strong economic development while maintaining social, political, and economic stability, and at the same time safeguarding the fundamental and instrumental goal of maintaining and reinforcing the leadership of the Party.[10] The special economic zones constitute the example of the implementation of the strategy the Party will use in practically all the domains: test policies that have produced good results abroad in a limited Chinese context and verify whether they are suitable to China; in case of success, export these good policies to the rest of the country.[11]

It is clear that this way of analyzing the development of reforms in China by proposing Deng as a single rational actor, determining alone the trend and pace of reforms, is too radical a simplification of reality. In fact, one can also analyze the reforms in China like a process implying the cooperation of several individual actors, factions, groups, and central and provincial leaders, not to mention the support of the majority of the population. Moreover, we cannot exclude the impact of structural forces independent of the will of political leaders. Attributing to Deng such a prominent and determining role is maybe also a bit too apologetic. In fact, any strategy in favour of economic development (and this being independent of who is leading the country) is bound to introduce some kind of market mechanisms. But how?

To answer this question I will consider that the two goals (improvement of the economic performance through market mechanisms and maintenance of the

political power) constitute two structurally interdependent components of a system (both an intellectual system and an action system) and that they are linked to the structure of power. In the theory of power I have developed elsewhere and that I will use in the last chapter in order to interpret China's reforms, I have proposed to consider that, in order to exist and eventually to develop, any society must develop five sub-structures that perform five functional imperatives.[12] These five sub-structures are the following: the socio-biological one that reproduces the human species; the economic one that provides goods (and eventually services); the legal one that provides formal rules of behaviour; the cultural one that gives to the members of society fundamental values, beliefs, social norms orienting behaviours, and the intellectual means for understanding the world; and the informational one that provides means of communication (both symbolic, such as language, and physical such as newspapers and internet). The way in which these five sub-structures accomplish these imperatives determines the shape of structural power and its impact over the social actors by determining their relative freedom. Moreover, by accomplishing the functional imperatives, the five sub-structures produce and distribute resources to the actors, who use them within the interactive processes taking advantage of the relative freedom attributed to them by the structures. So, a powerful actor (i.e. whose freedom is rather large) acting in this framework can succeed in starting to change one of the sub-structures, in Deng's case the economic one. But, if we assume that the five sub-structures are linked by a structural interdependence, we can forecast that in order to succeed in reforming the economic sub-structure Deng must also change the other sub-structures, or at least those that are indispensable for the success of the reform of the economy.

As we have seen before, some Western observers of China consider that this analysis gives credit to the convergence thesis, because by introducing market mechanisms China will inevitably converge toward the Western model. While we cannot exclude this possibility, we cannot accept it as a necessary and inevitable one. As I will sustain in more detail in the last chapter, by introducing market mechanisms China will not necessarily converge toward the Western model, provided it can find some functional equivalents to the other dimensions of society (such as the rule of law) that in the West have contributed to the implementation of the liberal model. If China will succeed in doing so, it is more likely that it will develop different societal characteristics performing the same function of sustaining economic development. I can briefly illustrate this point by taking into consideration the principle of transparency which is one of the fundamental conditions of existence of a market economy.[13]

If transparency is a condition of existence of a market economy and if Deng wants to introduce a market economy, it will be necessary to develop a legal system where laws and regulations are publicly known and implemented 'in spite and against personal and individual interests'; this will contribute to making the legal framework in which economic events occur foreseeably, which is one of the conditions favouring rational economic decisions. Now, in spite of the fact that the present state of Chinese law has not yet attained the level of legal security comparable to the Western one, and that the Party still interferes in many cases with the

courts' decision-making process, the level of security is considered as sufficient by the many foreign and local investors that are active in the Chinese economy. As some Western scholars have recently convincingly argued, there may be some viable alternatives to the Western rule of law.[14] Comforted by these authors, I will therefore also consider the hypothesis that China may find some kind of functional equivalents that may sustain its market economy, similar in their function and impact to the ones that are in force in Western countries. What is important in the end is that economic development takes place and that it is equitably distributed to all social groups within a society. I will deal with these aspects in the last part of this chapter. And of course I will have to deal with the important question of the human rights, a topic I will treat in the last chapter of this book.

By pursuing the consolidation of the power of the Party, Deng Xiaoping postulated in 1979 the Four Cardinal Principles that are still valid today, as we have already seen in chapter 1:

1 every public policy is to be in conformity with the Marxist–Leninist and Maoist thought
2 with the Socialist way
3 with the continuation of the democratic dictatorship of the people
4 with the leadership of the CPC.[15]

While the first three principles may give way to various interpretations, the fourth principle was used to consolidate the power of the CPC, and thus that of Deng, by not allowing any political force to rise within civil society to contest the supremacy of the CPC. The consequences of this policy appear in particular in the fact that the media remain basically under the control of the Party and that the Party, in spite of the reforms, retains control over the administration thanks to its organization which is in fact parallel and hierarchically superior to the governmental one at all levels of government.[16]

To achieve the second goal, the improvement of the economic performance, Deng has initiated four modernizations in four fields: agriculture, industry, science and technology, and national defence. It is clear that in order to mobilize the country's forces within Chinese society for improving economic performance, Deng must give some freedom to the Chinese people, and this has been often interpreted in the West as a contradiction to the political goal of maintaining the supremacy of the CPC. Nevertheless, this interpretation is only valid if one assumes that the political goal is the principal one and economic development simply the means for achieving the former. But if we consider that the two goals are embedded into a single system in which they are interdependent, this interpretation loses its force. No matter what is the dominant goal, pursuing economic development will inevitably give more freedom to the Chinese people in the economic structure. What will be the consequences of this economic freedom in the political arena is by no means clear, and cannot be forecast on the basis of the Western experience, which is (and this should not be forgotten) a unique historical experience. Once again, what matters is the situation of the Chinese people (which has certainly improved since

the beginning of the reforms) and the consequences the Chinese people will draw from this experience. What is also certain is that the reform era represents a radical break from the Maoist past, and the way used by Deng to lead the country out of the Maoist era is an additional proof of the pragmatic character of his strategy.

We can now summarize the main features of Deng's strategy as follows. The strategic level is divided into two complementary levels; that is, the ideology and the economy–military levels. At the ideological level Deng reaffirms four of the main features of the Party's ideology by defining the Four Cardinal Principles; that is: to keep to the socialist road; to uphold the people's democratic dictatorship; to maintain the leadership by the Communist Party; Marxism–Leninism and Mao Zedong thought. At the economic–military level, Deng defines the target of China's modernization by identifying four domains necessary for restoring China's strength both internally and internationally; that is: agriculture, industry, science and technology, and national defence. At the operational level the main goal is to improve economic performance and the standard of living of the Chinese people. The means for realizing this goal is the introduction of market mechanisms and opening up to the global economy. The strategy/tactics orienting the day-to-day implementation of this vast policy objective can be defined as follows:

1 maintain the leadership of the Party and restore its legitimacy
2 introduce reforms on an experimental basis
3 reform gradually (not like Russia)
4 privatize gradually and partially, by keeping the strategic economic sectors in the hands of the state, and reinforcing the macro-economic policies of the state[17]
5 maintain economic, social and political stability
6 in case of difficulties, slow down or stop, then restart.

## 2 The content of Deng's reforms

In order to explain in more detail the development and content of Deng's strategy I will follow the explanation of Lieberthal, who subdivides it into the following elements: the creation of a 'pool of talent', the management of the relationship between state and society, the reform of agriculture first, then the reform of the urban economy, and finally the integration into the international economy.[18]

### *2.1 The creation of a 'pool of talent'*[19]

Deng understood that in order to master market mechanisms Chinese society and administration had to undergo some fundamental changes, and first of all an improvement of the technical competencies. For this purpose he launches at the end of the 1970s the rehabilitation of the intellectuals who were purged during the Cultural Revolution. Professional qualifications are no more considered as an elitist characteristic but as a patriotic one. Nevertheless, freedom of the intellectual should not be equated with freedom to attack the political leadership and

the State. Moreover, Deng favours the accession of young educated people to the public administration which should thus favour the rationalization of public management.

### *2.2 The management of the relationship between state and society*[20]

Secondly, Deng wanted to remove dogmatism from within civil society which was completely determined by the state during the Cultural Revolution. According to Lieberthal, Deng had come to the conclusion that economic development required a certain degree of freedom and initiative from civil society.[21] It was therefore necessary to increase the freedom of social actors and to relax the constraints of structural power. Thus, through Deng's reforms, consumerism (in particular fashion) was made again socially possible and even accepted, and, for example, television sets were distributed massively at the end the 1970s in order to encourage positive attitudes toward consumerism instead of exclusively diffusing discourse with ideological contents. We can say that, through the development of consumption, the role of the state in orienting the moral behaviour of the people has been reduced, and that the expectations of the population (especially regarding the improvement of the material living conditions) have considerably increased.[22] Nevertheless, we should not forget that consumerism is also based upon some ideological values, and this is the reason why many Chinese officials and intellectuals are worried today about the lack of moral restraints of a large part of the Chinese population which frenetically rushes toward enrichment at all costs and by all means.[23]

### *2.3 The reform of agriculture*[24]

In 1978, 80 percent of the Chinese population lived in the countryside and worked in the primary sector. At the beginning of the 1980s, Deng's reforms led to the abolition of the agricultural communes that were replaced de facto by family farms, since each family leased land from the commune. The introduction of family farms led to a surplus of manpower in the rural areas. Deng compensated this workforce surplus by allowing the creation of small enterprises and light industry. By these measures, the process of urbanization could be partially diverted from large urban areas toward small cities, where a strong demand for consumer goods was developing which in turn supported the development of light industry. During these reforms, millions of people changed their work, and these small cities or 'townships' became an important political and economic factor.

However, agricultural production did not increase after 1984 in spite of demographic growth, and the uncontrolled industrialization of the rural areas started to raise concerns about the environmental consequences of this policy.[25]

### *2.4 The reform of urban economy*[26]

The fourth dimension of reforms concerns the urban economy, where Deng's strategy also led to an increase of the freedom of social actors.

Thus, several forms of property were legalized and the state gave up the absolute monopoly of production and distribution of goods and services. This is also witnessed by the limitation of the importance of the Economic Plan: in 1978 the Plan still contained 600 items, while at the end of the 1980s their number was reduced to only 25. This reduction of the importance of the Economic Plan is on the one hand the result of decentralization (i.e. delegation of duties to the subordinate local authorities) but also, on the other hand, of the disappearance of some domains formerly regulated by the Plan.[27]

Moreover, during the 1980s the state weakened the administrative price control, and this has given rise to the 'dual price system': this system allows that goods which are produced in surplus of the Economic Plan can be sold at a higher price in the market. Regardless, this system has also shown negative consequences like corruption or illegal 'prices arbitrage'.[28]

### *2.5 The integration into the international economy*[29]

The fifth dimension of the reforms of Deng Xiaoping concerns the opening of China to the world economy. When Deng seizes power and launches the reform process, the immediate international environment of China had undergone important transformations since the time of the Cultural Revolution. Neighbours such as Japan, South Korea, Taiwan or Singapore had experienced technological development and considerable economic growth thanks to their integration into the world economy. Deng considered that the catching up of the Chinese economy compared to its neighbours was essential for China's national security.

For this reason, the Chinese government, as early as 1979, offered a special tax treatment to foreign companies to attract investments. This opening has nevertheless made necessary, as I have already said, the establishment of a more transparent legal system.[30] Before the reforms, the Chinese legal system was mainly based upon personal decisions and had not known codified norms. Thus, the first foreign companies which settled in China were obliged to accept all the relevant rules without knowing the contents of these rules. During the 1980s, Deng was actually able to impose some changes to the legal system which made it more transparent and started to develop a court system. The development of the legal system also resulted in a great need for lawyers.[31]

During Deng's era, China also started to be interested in the accession to international organizations like the institutions of Bretton Woods or the Asian Development Bank for the purpose of obtaining loans at low interest rates and gaining access to the competencies of these organizations. The opening of China to the world economy also involved a change of mentality for the export enterprises; for example, in textiles. During Mao's era, these enterprises were accustomed to producing according to the quantities set by the Plan, whereas under Deng it was necessary to produce according to the demand of customers. This change of mentality favoured the reforms of the companies by introducing a rational managerial system, but it also implied the danger of destroying the bond between the enterprises and the community. In fact under the planned economy, enterprises had a

double role: on one side they had the economic function of producing according to the figures set in the Plan and to distribute salaries to their employees; on the other hand they had the social role of providing schools, medical care, and old age pensions to their workforce. The reforms, while boosting economic development by introducing some principles of market economy (namely competition as a condition for economic efficiency, and therefore the necessity of reducing production costs), had the consequence of driving enterprises to give priority to their economic function at the expense of the social one, thus laying off their redundant workforce and leaving the remaining employees without the social security to which they were accustomed during the Mao era.

The analysis of the main contents of the economic reforms I have just presented shows the importance of the changes introduced by Deng, through his pragmatic strategy based upon factual considerations more than on ideological a priori. Moreover, the analysis of the contents of these reforms illustrates very well that reforms in the economic structure may involve the need for reforms in other parts of society; for example, in the legal and the cultural structures, as the different sub-structures are embedded in a system where they are linked by a structural inter-dependency. Finally, I have put forward the hypothesis that in the process of changing other sub-structures after the changes introduced in the economy, China may not necessarily follow the Western way, and may be able to find some functional equivalents capable of sustaining market mechanisms.

## 3 The results of Deng's reforms

In the preceding paragraphs and in the first chapter we have seen how the reforms have been implemented and what ideological changes have been necessary to realize the socialist market economy. In this last part I will try to evaluate the results obtained from this process of transformation of China. Even if this process is far from being complete, I will try to evaluate how Deng and his successors succeeded, up to now, to satisfactorily manage the two constraints I have previously identified: on one side the need for the technological and economic modernization to catch up with the other world powers, and on the other side the restoration and strengthening of the Party legitimacy and the guarantee of social and political stability. According to Yasheng Huang, these two sometimes contradictory constraints created a certain lack of synchronization between the internal and external reforms.[32] Internal reforms correspond to the liberalization of the internal market, whereas external reforms correspond to the opening of the country to the world economy. Today the Chinese economy is one of the most open amongst developing countries, as is proven by the fact that China has today the lowest tariffs on importation amongst these countries. Tariffs fell from 41 to 6 percent after the accession of China to the World Trade Organization (WTO) in 2001. But at the same time the Party firmly controls both private and state-owned enterprises (SOEs). One can ask the question: how have these apparently contradictory policies been possible, and what are their consequences? The answer to this question is not an easy one. Based upon the available empirical evidence, I will rather try to evaluate in the second part of

this chapter the positive and the less positive outcomes, as well as the challenges created by the reform process. I will leave to the last chapter the identification of the obstacles that the Chinese leadership has still to address in order to complete the modernization of China, knowing that history (contrary to the naïve belief of some academics) has not come to an end after the end of the Cold War.[33]

### *3.1 The success of Deng's reforms*

We can start to say that both Western and Chinese researchers consider that the reforms allowed an enormous economic growth and a significant improvement of the living conditions of the Chinese people, even if there are substantial disparities both between provinces and within provinces.[34] For instance, there are no more famines, as has been, for example, the case during the Great Leap Forward. It is obvious that these inequalities must be reduced in the future in order to maintain the stability of the country. During recent years there have already been several widespread demonstrations of peasants and workmen inside the country. Nevertheless, as early as 1990, a study by the World Bank makes the following synthesis:

> The average income of the 800 million rural populations more than doubled and absolute poverty receded nationwide. In 1988, some 13 percent of rural households fell below the poverty line, compared with 17 percent in 1981. Infant and child mortality declined, the rate of population growth was slowed and universal education of five years was achieved.[35]

After that date, the economic development achieved by China continued to be quite impressive. In its report of 1997 (i.e. before the reform trend was to be confirmed by the September 1997 congress of the CPC): the World Bank compares the time needed for doubling the GDP by several countries: the United Kingdom needed 58 years (from 1780 to 1838), the USA 47 (from 1839 to 1886), Japan 34 years (from 1885 to 1919), South Korea 11 (from 1966 to 1977), and China only nine years (from 1978 to 1987), not only once, but twice (the second time from 1987 to 1996), and even more impressive, during two consecutive periods of nine years.[36] Even though this type of comparison must be made with care (the overall situation at different historical periods of time is quite different and can, at least in part, explain the difference in speed), the achievements, when measured by GDP, are quite impressive. More recently, the World Bank has considered that most of the Millennium Development Goals have either already been achieved or China is well on the way to achieving them, that between 1981 and 2004 the fraction of the population consuming less than a dollar-per-day fell from 65 to 10 percent, and more than half a billion people were lifted out of poverty. Even if the rate of poverty is higher when measured by the new international poverty standard of $1.25 per-person-per-day (using 2005 Purchasing Power Parity for China), the decrease since 1981 is no less impressive: from 85 in 1981 to 27 percent in 2004.[37] Other data confirm this impression:

1. the general standard of living has considerably improved (even though, as we shall see, it is counterbalanced by the increasing disparities between regions, provinces, and between individuals within provinces)
2. extreme poverty has been eradicated
3. housing has been improved, especially in the coastal regions
4. communication infrastructure has been improved (railways, roads, telecommunication)
5. the education system has been improved at all levels; illiteracy has almost completely disappeared, etc.

Since the 1980s the economic annual growth rate has remained between 8 and 10 percent. Thanks to cheap labour, globalization made China the workshop of the world. During the 1990s it became the second highest receiver of direct foreign investments in the world.[38] Several researchers already talk about the twenty-first century as the Chinese century. How can we evaluate the modernization of China? Note that modernization is difficult to define 'scientifically' as it is a conceptual and ideological construct linked to the Western (and above all European) historical experience. The consequence is that Western people had (and still have today) the tendency to consider that 'their experience of modernity' is the only possible way toward modernity.[39] The consequence of this Western way of conceiving modernity (as well as the violent and tragic history of the encounter of Western modernity with China during the nineteenth century) has driven many Chinese intellectuals (and politicians) to reject modernity because it entailed (and for some it entails still today) the danger of Westernization of Chinese society.[40] It is not the place here to discuss this important topic. I will simply present some phenomena generally considered as good indicators of modernity. Following the suggestion of Mitter and others, and based upon the developments presented in chapter one, I will take into account the fact that Chinese modernity has some features in common with the West (as China becomes more and more embedded in the international system), together with some Chinese characteristics based upon its historical experience.

An interesting way of assessing the modernization process would be to follow the works of demographers such as Emmanuel Todd, whose thesis is that modernization is above all the result of changes in the rates of literacy and fertility.[41] I will come back to this perspective in the conclusion of this book, when I will refute the conversion thesis. But hereafter I will take into consideration economic and social data and to begin with I will regard modernization as a process of transfer of economic activities from agriculture to industry and services. Table 2.1 summarizes the development of China from an agricultural country to an industrial and service one. In 1978 its agriculture employed more than 70 percent of the working population and contributed to only one-third of the national income. In 2006 agriculture employed less than 50 percent of the working population and its contribution to the GDP fell to only 12.5 percent. By comparison, the industrial and the service sectors employ together, in 2006, 51.8 percent of the working population and contribute to 87.5 percent of GDP. Since 1978 it is the sector of the services whose contribution to GDP has most progressed.

*Table 2.1* Changes in employment and GDP of the three economic sectors (1952–2006)

| | *Employment* | | | | *Gross Domestic Product (GDP)* | | | |
|---|---|---|---|---|---|---|---|---|
| | *1952* | *1978* | *2003* | *2006* | *1952* | *1978* | *2003* | *2006* |
| Agriculture | 83.5% | 70.5% | 49.1% | 48.2 | 50.5% | 28.1% | 14.6 | 12.5% |
| Industry | 7.4 | 17.3 | 21.6 | 18.9 | 20.9 | 48.2 | 52.3 | 47.3 |
| Services | 9.1 | 12.2 | 29.3 | 32.9 | 28.6 | 23.7 | 33.1 | 40.2 |
| *Total* | *100* | *100* | *100* | *100* | *100* | *100* | *100* | *100* |

Source: data elaborated by Prof. Hu Angang. Tsinghua University, Beijing. From official data, except for 2006: Economist Intelligence Unit. Country Report China. June 2006.

GDP has doubled twice during two consecutive decades (1980–2000) and this places China at the third rank, out of 233 countries, after the US and EU, and it is likely that GDP is going to double again during the following decade. Of course China's situation is much less favourable if we take into consideration GDP per capita: it is now between US$6,000 in 'Purchasing Power Parity' and US$6,800 and this places China at the 118th rank, out of 233 countries (see Table 2.2).[42] Notwithstanding, there is no doubt that per capita revenue has been sustained by the growth of GDP, even if the newly created wealth has been very unevenly distributed amongst Chinese people, as I will consider in more detail later in this chapter. It is also certain that the evolution of per capita income will be more than proportionally linked to GDP growth, as the Chinese leadership has fully understood the danger of the inequalities that have dramatically increased during the 1990s and is taking serious measures to rebalance the economy, especially after the adoption of the 11th Plan in 2005 and the decisions announced by President Hu Jintao at the November 2007 Party Congress, more particularly in the domain of social policies.

Nevertheless, economic indicators cannot fully describe the situation of a population. For this reason the United Nations Development Programme (UNDP) (partially following in this the ideas of Nobel Prize winner Amartya Sen)[43] has developed a mixed indicator for better measuring the actual wellbeing of a country: the Human Development Index (HDI) combining life expectancy at birth, education (measured by literacy), and GDP per capita. These three dimensions are then given equal weight and combined into a single indicator (the HDI). On this count, China does much better than by taking into consideration economic indicators only.[44] According to the HDI-Statistical update 2008, and based upon 2006 data, China's HDI is equal to 0.762. That places China at the 94th rank (out of 179 countries) within the 'Medium Human Development' group (i.e. countries placed from rank 76 with index 0.798, to 153 with index 0.502). China is placed after, for example, Ukraine–82 rank, Thailand–81, Colombia–80, Russia–73, Brazil–70, Albania–69, Romania–62, Venezuela–61, and Bulgaria–56; but before for ex. Tunisia–95, Paraguay–98, Philippines–102, Indonesia–109, South-Africa–125, India–132, and Pakistan–139.

In order to measure China's improvement by the HDI I have taken China's index every five years from 1980 and compared it with the index of the country having roughly the same index in 2006. Table 2.3 gives the results of this comparison.

In 1980 China's HDI index was the same as Sudan in 2006, and in 2006 China has the same HDI as Tunisia in the same year. Taking the UNDP data for 1975, when China's HDI was 0.527, we can see that between 1975 and 1980 (i.e. at the end of Mao's era) there was only a very small improvement (+ 0.033), whereas in the reform era, from 1980 on, the improvement is constant and impressive. According to UNDP calculations, between 1980 and 2006 China has improved its HDI by 0.226, second only to Egypt (+ 0.233) and before Nepal (+ 0.222), Iran (+ 0.218) and Indonesia (+ 0.205), while all the other countries in the UNDP statistics have increased their HDI by less than 0.200. It must be said however, that whereas the HDI allows a comparison of countries using an overall indicator

*Table 2.2* China's main economic indicators

| | *2004* | *2005* | *2006* | *2007* | *2008* | *2009** |
|---|---|---|---|---|---|---|
| Population million | 1,300 | 1,308 | 1,314 | 1,321 | 1,327 | 1,334 |
| Real GDP growth % | 10.1 | 10.4 | 11.6 | 11.9 | 9.0 | 7.2 |
| Nominal GDP US$ bn | 1,936 | 2,203 | 2,774 | 3,242 | 4,401 | 4,832 |
| GDP per head US$ at PPP | 3,068 | 4,186 | 4,793 | 5,478 | 5,962 | 6,378 |
| Consumer inflation % | 2.3 | 1.7 | 2.8 | 6.7 | 5.8 | 0.5 |
| Current account balance US$ bn | 68,7 | 160,8 | 249,9 | 371,8 | 440,0 | 496,6 |
| Foreign exchange reserves US$ bn | 618,6 | 825,6 | 1,072,6 | 1,534,4 | 1,951,0+ | 2,376,0 |
| Exchange rate RMB–US$ | 8.28 | 8.07 | 7.81 | 7.31 | 6.82** | 6.95** |

Sources: elaborated by author from Economist Intelligence Unit, Country Report, June 2008; International Monetary Fund (IMF) Data Bank 2009, and World Bank's China Quarterly Update, March 2009.

* Estimates by World Bank and International Monetary Fund.

** Estimates by Standard Chartered.

+ about 70% of which are invested in US government securities (Geoff Dyer, 'China has long way to go to dislodge dollar', *Financial Times*, May 21 2009).

*Table 2.3* China's improvement measured by the HDI index

| *Year* | *1980* | *1985* | *1990* | *1995* | *2000* | *2006* |
|---|---|---|---|---|---|---|
| China's rank | 131 | 128 | 125 | 117 | 101 | 94 |
| *China's HDI* | 0.529 | 0.596 | 0.628 | 0.685 | 0.730 | 0.762 |
| *as, in 2006,* | Sudan | Solomon | Namibia | Tajikistan | Gabon | Tunisia |

Source: UNDP *Human Development Indices: A Statistical Update 2008,* based upon 2006 data.

of their performance, it nevertheless masks differences within these same countries. I will consider the problems arising from the different level of development between Chinese provinces and within provinces in the last part of this chapter.[45] For the moment it is interesting to explain why China has developed so fast during the last three decades.

## *3.2 Why has China's economy grown so fast?*[46]

### *3.2.1 The overall explanation*

Many economists, both Chinese and Western, have proposed explanations for the very fast development of the Chinese economy.[47] Recently, a team of three economists, two Chinese and one Western, has attributed the growth of China's economy mainly to the considerable investments realized since the beginning of the reforms process.[48] They arrive at this conclusion after criticizing recent studies of the sources of China's growth that consider that there has hardly been any technological improvement in China over the past decades. They further consider that the model upon which such analyses are based (the Solow growth model) is not adequate for explaining China's development. By comparing China's transition with the transition from the Soviet Union to today's Russia, they convincingly show that labour reallocation and overall employment have been determined by investment. Moreover, given the large rural population,[49] investments stimulated the development of 'a new and efficient labour-intensive, export-oriented, state-owned industrial sector side by side with the old, capital-intensive, State-owned industrial sector'.[50] Now, according to these scholars, this transfer of manpower from agriculture to industry is not exogenously determined by demographic and other labour supply factors, but is 'determined endogenously by the rate of investment in industry and commerce that created jobs that were largely filled by migrant workers from the rural sector'.[51] Finally, these authors show that investment and technological improvements are parts of the same process. In this context, the amount of growth determined by investment depends on the quality of China's infrastructure, including not only physical infrastructure like roads, railways, etc., but also by 'the government's policy framework,[52] the country's corporate governance and legal systems, and its economic institutions that influence investment decision making, including the financial system and product and factor markets generally'.[53] And they conclude that these factors do not operate separately, but interactively to determine the rate of growth. Even so, their explanation is mainly developed according to the lines suggested by economic analysis. A more comprehensive explanation has been developed by the Tsinghua professor Hu Angang.

It is not possible in the context of this chapter to give an overall account of Hu Angang's explanation of China's growth that covers all dimensions of the modernization process, involving economy, society, polity and environment, and points to the conditions explaining economic growth, its positive and negative consequences, as well as the policy recommendations (what he calls 'China's

Grand Strategy') for sustaining economic development while guaranteeing a fair distribution of wealth, and thus assuring social and political stability. I will nevertheless summarize the major dimension of his analysis useful for developing our own understanding of China's reforms.

Starting from the works of Alexander Gerschenkron,[54] and exploring economic development in other countries from a historical perspective, Hu initially takes into account the advantages of a country with a backward economy. First, this country can introduce new technology and equipment into its own economy by importing them from developed countries. Second, it can learn from successful experiences and lessons from developed countries. Third, it can count on a strong social consensus for catching up, which means for the people the perspective of improving their standard of living. Of course, there are many countries that share these characteristics, but not all of them succeed in developing their economy. Therefore, there must be some other factors that explain why a country starting from this situation succeeds in developing its economy. According to Hu, three decisive factors will help the developing country to take advantage of this situation and catch up with the most developed ones. First, it must have a high level of savings. Second, it must mobilize international capital by opening up to the rest of the world. Third, it must speed up the dissemination of technology within its economy. All these three factors are related to each other and contribute to the availability of technological know-how and domestic and foreign financial means for the purpose of making investments possible and efficient. Using appropriate statistical data,[55] Hu shows that, since the beginning of reforms, China has been able to narrow the gap in per capita GDP with developed countries.

The next step has been the construction of a growth model that Hu defines as 'a comprehensive growth framework covering capital, labour, institutional change, and knowledge'.[56] Using this method, Hu arrives at three major conclusions for China. First, about half of the per capita output came from per capita growth. Second, one -third of the per capita output growth came from institutional changes. Third, one-fifth of per capita output growth came from knowledge development. On the basis of these results, Hu concludes that:

> this method better interprets the sources for China's economic growth. It implies that institutional changes can be stimulated through reforms, and knowledge development can be promoted through opening up and technical innovation. Thus policies can be made accordingly, to achieve a sustainable growth in the future. This means that China should make technology and knowledge, rather than capital and natural resources, the driving forces for economic growth.[57]

Given the influence that this type of research and policy advice had in China at the moment of the drawing up of the 11th Plan, this conclusion should be well understood by all those who want to grasp the real meaning of the changes introduced by the Chinese leadership during the Hu Jintao era. More insights from Hu's research, based upon the identification of several negative consequences of

the economic development between 1978 and the mid-1990s, will be presented in the last section of this chapter. For the moment it is interesting to present the next step in Hu's analysis of China's economic development; that is, the identification of five major effects that stimulate China's rapid economic growth.

The first effect is the speed effect: during a given period of time, the industrialization latecomers, such as China in the 1980s and 1990s, grows faster than the forerunners. Second, during the same period of time, the structure indicators change faster in less developed economies than in the developed ones. These indicators concern the transfer:

1. of population from rural to urban areas;
2. of manpower from agriculture to industry and services;
3. of contribution to GDP from agriculture to the secondary and the tertiary sectors,[58]
4. as well as changes in domestic demand (i.e. changes in households and government consumption, total capital formation, and net exports)
5. as well as changes in household consumption structure between rural and urban households
6. and changes in foreign trade ratio (i.e. between exports and imports).[59]

Moreover, accelerated growth may stimulate labour to move to higher level production sectors. This transfer is always concomitant with the growth of material capital stock, the improvement of the skills of workers, the development of education, as well as improvements of managerial know-how, and will result in an economy more open to international trade. The final result of these improvements is that they will further stimulate economic growth.[60]

Third, the opening up effect corresponds to the fact that late comers move faster than developed economies in participating in the global economy. China's share in the world exports increased from 1.6 percent in 1985 to 6.1 percent in 2000. All components of exports increased (i.e. primary products, resource and non-resource products, low-tech, medium tech and high tech products), but what is more interesting is that the product mix has undergone a dramatic change: the percentage of primary products dropped from 50.2 percent in 1980 to 4.7 percent in 2000, while export of manufactured goods reached 87.1 percent by 2000. The percentage of low-tech products rose to 47.6 percent in 2000 from 4.5 percent in 1985 and, more interestingly, the proportion of high-tech products rose to 22.4 percent in 2000 from a very low 2.6 percent in 1985. And Hu concludes that 'this shows that China displayed its advantages in both labour intensive products export and in the exports of high-tech products'.[61]

Fourth, the institutional effect is one of the most interesting results of Hu's research as it shows the importance of institutional building in the process of sustaining economic development through the state's measures and intervention. This effect measures the degree of liberalization of the Chinese market using nine areas and 24 indicators. Table 2.4 summarizes the results obtained by this method that shows that in all areas there have been considerable improvements made by

*Table 2.4* Evolution of the marketization development indicators of the entire and local economic operational mechanism of China (1978–1999) (%)

| *Year* | *Government behaviour change (10.0)* | *Market-ization of output and circulation (11.7)* | *Market-ization of price and transaction (10.6)* | *Market-ization of investment (10.3)* | *Market-ization of finance and insurance (9.7)* | *Market-ization of foreign trade (11.2)* | *Market-ization of labour and employment (12.1)* | *Market operation environment (12.4)* | *Rules and regulation legalization (12.0)* | *China economic market-ization indicator** |
|---|---|---|---|---|---|---|---|---|---|---|
| 1978 | 71.54 | 24.98 | 24.33 | 13.80 | 0.94 | 10.60 | 16.16 | 5.03 | 3.78 | 18.39 |
| 1980 | 72.26 | 27.23 | 34.69 | 28.51 | 1.14 | 14.28 | 17.60 | 6.51 | 4.79 | 22.25 |
| 1985 | 73.24 | 55.74 | 62.17 | 49.11 | 1.91 | 22.22 | 24.28 | 12.91 | 7.44 | 33.60 |
| 1990 | 73.83 | 61.04 | 69.45 | 52.80 | 2.85 | 34.79 | 29.55 | 18.44 | 9.65 | 38.52 |
| 1995 | 81.82 | 71.77 | 72.10 | 61.03 | 8.27 | 58.13 | 35.11 | 25.87 | 15.69 | 47.16 |
| 1999 | 82.98 | 77.23 | 76.86 | 60.43 | 18.97 | 44.26 | 45.04 | 33.43 | 17.92 | 50.25 |

Source: Wu Qungang, 'Impact of institutional changes on long-term economic performance: theories, models, and application', Doctoral dissertation at the School of Economics and Management of Tsinghua University under the supervision of Prof. Hu Angang, reproduced in Hu Angang, op. cit., p. 23.

* China economic marketization indicator is the weighted sum of nine indicators. Data in brackets are weighted. All calculations are completed by SPSS10.0 software.

the government for adapting the Chinese market to the requirements of market mechanisms.

Finally, the technology catch up effect completes the five effects that drive China's rapid economic growth. It refers to the rate of technology diffusion of technologically lagging countries that is higher than the technological innovation speed of technologically advanced economies. This difference is due to the fact that less developed countries acquire technology mainly by importing it from abroad, and the cost of importing existing technology is less expensive than endogenously developing it. China's technology comes from several sources:

1 direct import of high-tech products
2 acquisition of technology through foreign direct investments (FDI)
3 direct financing of Research and Development (R&D) by Chinese enterprises
4 cooperation with advanced countries in science and technology.

Using different methods for measuring the development of technology in China, Hu comes to the conclusion that overall China has made important progress in this domain that Hu considers as fundamental for sustaining the development of the economy. This is because the process of catching up with developed countries is a process where knowledge and economic growth mutually reinforce each other. And for this reason, as I have already mentioned, Hu considers that China should operate a transition from a capital-driven economy to a technology-driven one, and this will be possible especially if China succeeds in becoming an endogenous technological innovator.[62]

### *3.2.2 The importance of the private sector*

The explanations of the development of China's economy presented in the paragraphs above suggest that an important part of this development is to be attributed to the introduction of market mechanisms and therefore to the new economic forces that must have been developing in place of the old planned economy (at least in part) and within the new economy; that is, a market economy. Therefore, one can expect that a great part of the economic development (in terms of both employment and contribution to GDP) has come from an increasing private sector managed by a developing new class of entrepreneurs. That the development of the private sector has greatly contributed to the development of the Chinese economy is generally admitted by the majority of scholars.[63] Amongst the many statistical data used to prove the increasing importance of the private sector let us take the data on the industrial output shared by different sorts of ownership, presented by Bennis So Wai Yip.[64] According to the data taken from the National Statistical Bureau of China, the contribution of SOEs declined from 77.63 percent in 1978 to 19.44 in 1998; during the same period, the contribution of collective enterprises increased from 22.37 to 46.79 percent and that of others (i.e. private enterprises) increased from 0.5 to 33.77 percent. Comparable results can be obtained for employment

and contribution to GDP. This seems to be a fair presentation of the situation as the collective enterprises are not included in the private sector. Unfortunately, sometimes collectives are included in the private sector with the consequence of overestimating the size of private enterprises and their contribution to China's development.

Why the contribution of the private sector is too often over-evaluated is a mystery to me, unless one makes the hypothesis that this opinion is, for several Western and some Chinese scholars and commentators, a self-fulfilling prophecy that, for the time being, is far from becoming a reality. This is clearly not a rational way of dealing with the actual situation in China, where most of the time collective enterprises are in fact (if not by law) the property of local (provincial or municipal) governments. Moreover, the imbrication between private and public interests at the local Chinese level is well-known and widespread. Last but not least, one should not forget that the entire economic system is under the macro-economic (and political) control of the Central Government.[65] This opinion is in part shared by Yasheng Huang who, after in-depth research into the new Chinese ownership structure recently published in the US, considers that the biggest difficulty in assessing the ownership structure of China's economy is that it is often unclear who controls a company.[66]

Moreover, in many instances, innovations have come from the state sector or with a substantial support from the government. For example, the very rapid development of the telecommunication infrastructure in China has been a market-oriented development, not allowing foreign participation, and with strong state initiatives: 'China's central planners played a pivotal role in introducing a variety of innovative measures to push the industry onto the takeoff track […] Financial accountability of enterprises, prices and fees reflecting costs and scarcity, and government support with local initiatives, all have contributed to spectacular growth of telecommunications business.'[67] Moreover, it is interesting to note that the 23 Chinese firms that ranked in the top 500 on the *Fortune Magazine* in 2006 were all SOEs.[68] Finally, even the World Bank admits in a recent report that the innovation capacity of the private sector is nowadays weak, and it is not private enterprises that dominate R&D activities but rather SOEs, despite the replacement of government-run R&D institutes by business enterprises. True, the World Bank, faithful to its preference for the private sector as the main driver of economic development, very strongly considers that 'China's success in technological catching-up is likely to rely more on the capacity of its private sector, especially large private firms.' For the task leader of this World Bank research, Chunlin Zhang, 'the best solution, that is, the set of technologies that maximize both competitiveness and job creation capacity of Chinese enterprises, can only be found and installed by the collective action of the private sector and the market'.[69] It is certain that several of the World Bank suggestions make sense, such as the setting up of an institutional infrastructure and an incentives system capable to sustain private sector innovation. Nevertheless, considering that innovations are one of the major objectives of the Chinese leadership (as I showed at the end of the first chapter) it is more likely that for the time being the state will continue to play a central role in promoting

and providing innovation. Last but not least, the World Bank seems to forget that during the development stage of Western countries, and especially England and the US, important innovations have come from the public sector or to a very highly subsidized private sector, as has been, and still is today, the case of the military industry, whose innovations can be transposed to civil activities such as chemicals, high speed trains, civil aviation, etc.[70]

By these remarks I do not mean that in the future the private sector may not become within the Chinese economy a driving force more independent from the political leadership, as has been the case in the West since the Industrial Revolution. But for this to happen, several other changes in the organization of Chinese society will have to come to pass, and first of all the emergence of an independent new class of private entrepreneurs.

### *3.2.3 The emergence of a new class of entrepreneurs*

In fact, as the Western experience suggests, the development of China's economy may also necessarily be linked to the emergence of a new class of entrepreneurs without which it would not have been possible to achieve such spectacular results.

Here again, as in the case of the estimation of the contribution of the private sector to the Chinese economy, the difficulty comes from the imbrications between the private and the public sectors. Furthermore, I have already insisted upon the importance of the role of the state as a driving force deciding and orienting the development of market mechanisms in transition countries. Moreover, as we have already seen in the first chapter, the Party, under the leadership of Jiang Zemin and his Three Represents theory, called upon the entrepreneurs of the private sector to join the Party, and many have done so, in spite of the attitude of astonishment and scorn with which this proposal has been met with in the West. Finally, we know, as is attested by many Western and Chinese scholars, that SOEs have made important progress toward better management and efficiency to the point that some of them have started to invest abroad. Again, this does not mean that in the future private entrepreneurs will not develop a set of values different from those of the political elite within the Party and government. This was in fact my hypothesis when I started to explore the reform process several years before Jiang Zemin presented his theory of the Three Represents. One of the very high officials to whom I presented my ideas, immediately pointed out to me the differences in culture between the West and China that would certainly make the realization of that hypothesis highly improbable.[71] Today, I have come to consider that this hypothesis is based upon the historical Western experience, and it is not at all certain that this experience can be duplicated within the Chinese cultural environment.

Nevertheless, some observers working within China have started to treat the emerging class of new entrepreneurs as a relatively independent group, that could in the future develop its own strategies regarding not only the development of the economy, but also the rest of the Chinese society. And is it not what happened in the West? Two academics (Xiang Bing and Teng Bingsheng) from the Cheung Kong

Graduate Business School in Beijing have recently proposed a typology of Chinese entrepreneurs.[72] They consider three generations of entrepreneurs. The members of the first generation are more than 45 years old, were either college graduates or former military personnel, and most were employed by SOEs.[73] They benefited from the ideological change brought about by Deng Xiaoping, experienced the difficulties of the transition process, but were able to overcome these difficulties by using versatility and flexibility and, above all, they learned how to take advantage of experimentation. They were the first entrepreneurs that ran Chinese firms with the notion of market competition. Of course their success can be attributed to the extraordinary growth opportunities offered by the Chinese economy at large during the first decades of the reforms, but they had to make decisions in order to take advantage of that situation as well as of the low cost of Chinese labour. The two authors consider that weaknesses remain within this first group of entrepreneurs, but they admit that some of them have improved to the point that they jumped to the third group.

The entrepreneurs of the second generation are in their 30s and early 40s, and whereas the first generation focused its activity on manufacturing, they are mainly active in the service sector and high technologies.[74] They emerged in the late 1990s and are generally well-educated and have studied abroad. They enjoyed, more than the first generation, the acceleration of market liberalization, and were more ready to adopt modern management tools imported from abroad.[75] They are also more skilled in dealing with overseas capital market, and this was particularly important as they lacked state support. Notwithstanding, the two authors, Bing and Bingsheng, while stressing the importance of this group for developing the service sector as an indispensable part of an advanced economy, consider that they lag well behind their non-Chinese competitors, and moreover, their businesses remains largely confined to China.

Finally, the third generation has been capable of adopting a new approach to global competition. It is nevertheless a bit surprising that Bing and Bingsheng do not take a Chinese example for illustrating the third generation, but quote the Indian entrepreneur Lakshmi Mittal, head of Mittal Steel, which, after the acquisition of its largest competitor, Arcelor of Luxemburg, became the world's number one steel company. The two authors conclude that this is the proof that companies in developing countries do not to have to dominate the domestic market first before investing in global markets.[76] Finally, Bing and Bingsheng quote several examples of Chinese entrepreneurs of the first generations that have already moved in the third, such as Lenovo, TLC, Huawei and Haier. While it is certain that China needs this type of entrepreneur for sustaining the development of its economy, it is not at all clear yet whether these new entrepreneurs, evolving in the global markets, will develop a set of specific values of their own that may contradict the values of the political leadership. As I suggested in the first chapter it could very well be that there will be a convergence of the political leadership with the values of the new economic elite, or vice-versa or, more likely, a mutual adjustment. In any case, this may be the logical outcome of the reform process that seems, still today, to be oriented by the Chinese traditional values of unity and harmony. For the time being, this outcome is

confirmed by the authors of a recent research: the majority of private entrepreneurs supports the Chinese leadership and is in favour of the status quo. The reason for this attitude is explained thus: first, private entrepreneurs are the main beneficiaries of economic reforms and therefore are not likely to ask for fundamental political changes; second, they are satisfied with both their improved social and economic status and the performance of the government.[77] Finally, one should not forget that in the logic of China's reforms, the form of the economy and polity is not an end in itself, but a means for reclaiming for China the stature of a world-power, and the attainment of this goal will be necessarily linked to the improvement of the performance of the economic system, that in turn will improve the standard of living of the population, and thus assure political and social stability.

It is widely recognized that China has made important and astonishing progresses toward the realization of this end. But it is also well-known that the positive outcomes of the reform process have generated some negative consequences that may constitute some obstacles to the completion of the process of modernization, and constitute several formidable challenges to the Chinese leadership. I will examine them in the last part of this chapter.

### *3.3 The limits of Deng's reforms*

In this section I use and develop a framework of analysis for the interpretation of China's reforms which I presented for the first time in 2004.[78] At the beginning of April 2009, when I was revising the last version of this book, the World Bank made available on its website an interesting and very well-documented report focused on China's poverty reduction strategy, but which also inevitably, most of the time indirectly, touched upon several aspects of China's general reform strategy.[79] Although this report provides some new insights, and puts together a considerable amount of available data relating to inequality and poverty, it basically confirms my findings and analysis on these aspects of the changing structure of China. This is very likely due to the fact that the first draft of the said World Bank's research report, resulting from the team-work contributed by an impressive number of Chinese and Western experts, was completed as early as November 2005 on the basis of the data available at the time, even if later it benefited from additional inputs, particularly from Chinese scholars. Moreover, the data made available after 2004–5 largely confirmed the existing trends. I will therefore refer to this report only occasionally, when it provides some new data or insights. In the fourth chapter and in the Conclusion I propose a broader evaluation of China's reforms by further expanding the analysis presented in this chapter, taking into consideration the changes in the political system (and especially in the decision-making process), as well as the problematic of human rights and liberal democracy, which were not the objectives of the World Bank's report. For the moment, I will limit the analysis to the consequences of reforms on economy, society and the environment.

In spite of the positive outcomes of the development of the economy thanks to the reforms introduced by Deng Xiaoping, some notably negative consequences of economic development have appeared: disparities between regions

and provinces, as well as between people within regions, provinces and municipalities. The absence of regulations aiming at protecting the environment resulted in a considerable deterioration of the already precarious conditions of the Chinese environment.[80] The rapid introduction of market mechanisms and competition led State organizations (especially SOEs, but also State bureaucracies) to drastically reduce their staff and to lay off millions of employees and workers. This resulted in a huge rate of unemployment, as well as the emergence of new forms of poverty, that run the risk of counterbalancing, at least in part, the impressive decrease of poverty achieved thanks to the reforms. This trend, and especially the appearance of new forms of poverty, also had an impact on the increase of crime, especially petty crimes. According to data transmitted by Hu Angang (Tsinghua University) the number of crimes went up from 1986 to about 1991; then remained unchanged until 1998, but increased again dramatically from 1998 to about 2002 (i.e. after the acceleration of reforms decided at the September 1997 Party Congress) to attain a level at least four times the level of 1986.

Finally, the transition from a command economy to a new economic system, where market mechanisms (and hence competition among enterprises) were introduced quite rapidly, led the government to freeing the SOEs from the obligation of providing their workers and employees with the social services they were used to obtaining under the former command economy. This new way of organizing the production process, in conjunction with the one-child policy, was de-structuring both the traditional State's and intra-family solidarity, at least in the urban areas.[81] But the reform process also had some negative consequences in the rural areas. Even the World Bank concedes that whereas one can consider that the dismantling of the communes and the move to the Household Responsibility System have favored the rapid decrease of rural poverty:

> a by-product of this institutional transformation was the increasing monetization and marketization of public service delivery in rural areas. In place of the communes, local governments were charged with administering and financing these services, which in poorer areas, they were unable to fully do because of a lack of fiscal resources. Schools and health facilities have therefore had to increasingly rely on charging user fees in order to cover their costs.[82]

The consequence has been that not only did this new situation constitute an additional burden on rural families' budgets, but, for many of them, it was a serious obstacle to acceding to these services, and finally one of the causes of new forms of poverty. Therefore, the old solidarity system needed to be replaced in both urban and rural areas by a new safety net system in which, very likely, employers, employees and the State were to share the contribution to the various new social insurances. And this constitutes another challenge to the Chinese leadership, given the considerable cost implied by the new solidarity system.[83] Moreover, some of the features of the organization of Chinese society seemed at that time to constitute serious obstacles to the further development of the new policies, if the latter were to improve the wellbeing of the Chinese people.[84] Several scholars, both in China

and in the West, have pointed out these difficulties since the mid-1990s, and a few Chinese scholars even at the end of the 1980s.[85] The major problems of the new Chinese economy are summarized in Figure 2.1.

Following the appreciation of Hu Angang, let us summarize the development strategy used by Mao Zedong in the 1950s and 1960s, and then by Deng Xiaoping in the 1980s and 1990s. During the Mao era, China followed a traditional development strategy, oriented by the experience of the Soviet Union, in the framework of the planned economy. In the 1950s, Mao Zedong initiated the drive to 'catch up with UK and surpass USA'; in the mid-1960s he set the goal of achieving 'four modernizations' by the end of the twentieth century by implementing policies of 'high accumulation, low consumption', giving priority to heavy industry, including the defence industry, capital-intensive industries, and providing import protection, resulting in increasing disparities between urban and rural areas. Then, during the 1980s, Deng Xiaoping initiated the 'three-step strategy', setting the goal of quadrupling GDP, trade and investment liberalization, market development and competition.[86] The strategy is still centered around materials, with top priority put on speed. Deng Xiaoping advocated for imbalanced development, allowing some regions and some people to get rich first, by concentrating on the development of coastal regions. This resulted in enlarging income gaps between urban and rural people, greater regional disparities, and substantial increase in the income gaps between urban and rural areas.[87]

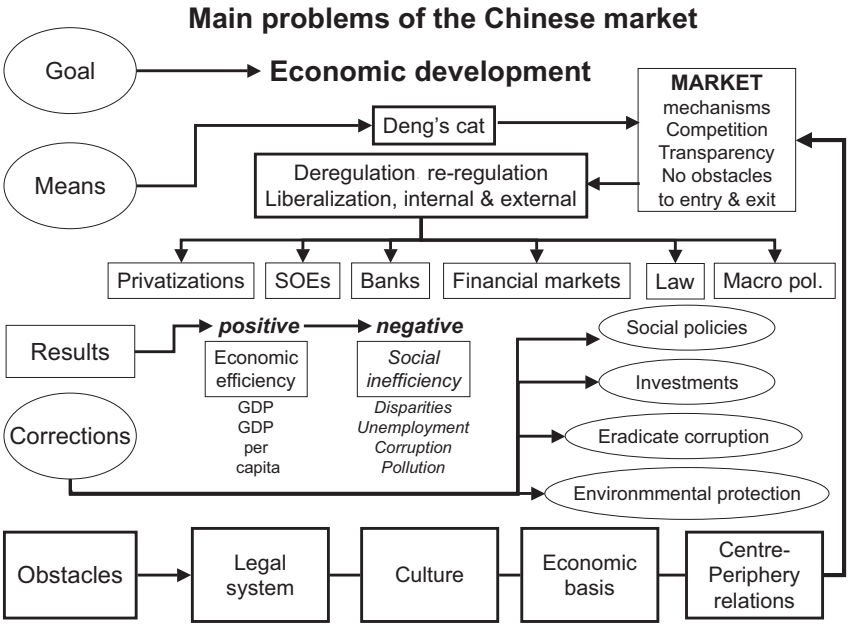


*Figure 2.1* Main problems of the Chinese market.

After having identified the major problems of the reforms process, let us try to summarize the major challenges of the new Chinese economy. The transition from a command to a market economy must be able to master the following processes:

1 privatization, in order to free private initiative and resources;
2 reforming the SOEs, in order to make them competitive in the market (especially since the entry of China into the WTO);
3 reforming the state's banks, making them competitive by ridding them of the non-performing loans (NPL), in order to sustain the development of the economy;
4 liberalizing and regulating the financial market, so that Chinese enterprises can drain the capital they need;
5 correcting the unwanted consequences of the market economy (namely the increasing unemployment, the increasing disparities, the consequences of the ageing population) and the deterioration of the environment (both physical and human), in order to make the economic development more equitable and respectful of the physical and human environment;
6 eradicating corruption, so that public money and public manpower are entirely used for the implementation of pubic policies, and not for private purposes;
7 setting up a legal system capable of supporting the development of a market economy, so that it becomes the source of an important part of the fiscal resources of the state.

For many of these policies China needs an improvement of its fiscal capacity, on the one hand of the taxation system, and on the other of the efficacy and efficiency of its expenses (public policies). Here again, the necessity of curbing corruption is certainly an important one.

The problems mentioned above should be addressed while maintaining the social and political stability of the country.

In short, an efficient and effective set of public policies aimed at satisfying the needs of the Chinese population within the new social arrangements will depend on the mastering of the following factors:

1 a precise evaluation of the needs (of people, enterprises, and government);
2 the availability of sufficient financial resources, this depending upon an efficient taxation system;
3 the availability of human resources (with good knowledge, skills and attitudes, and sufficient in number) for the implementation of public policies and services;
4 an economic system capable of:
    4.1 providing sufficient resources to both people and enterprises, and at the same time
    4.2 providing an economic basis sufficiently wide and stable, in order to allow the government to drain, through different forms of taxation, the financial

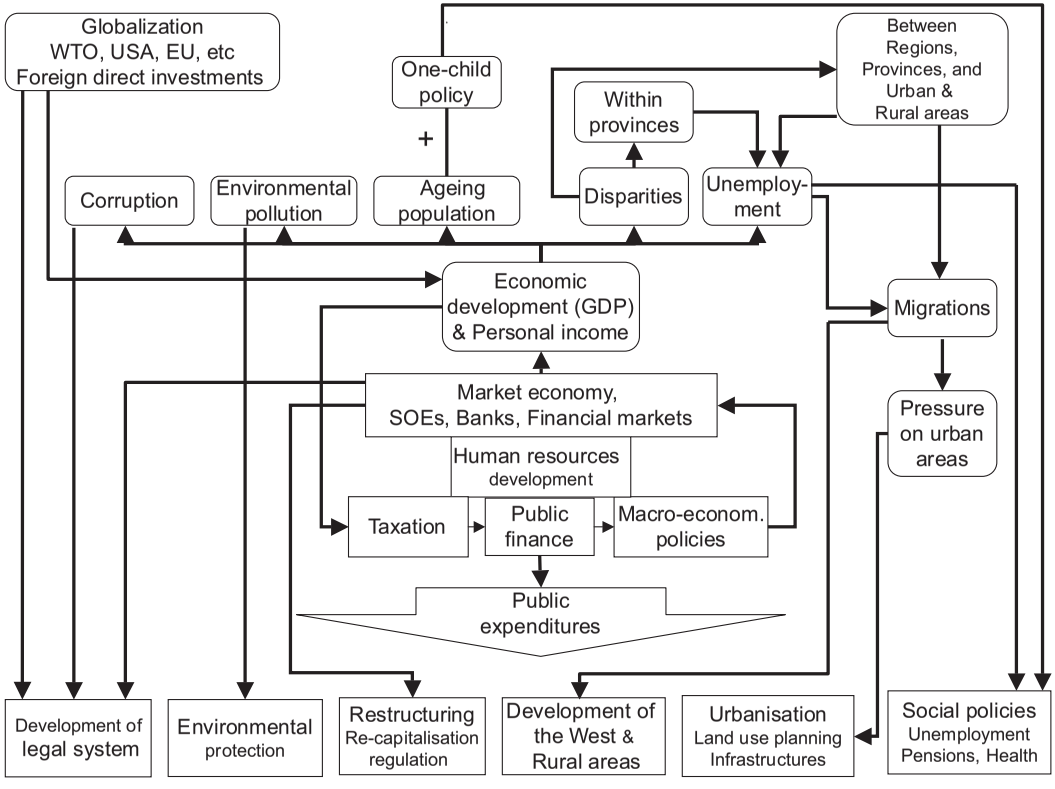


*Figure 2.2* Main dimensions of China's reforms.

means necessary for sustaining the implementation and development of public services; this second objective should not frustrate the initiative of investors and entrepreneurs

4.3 sustaining the improvement of the people's standard of living, especially of those living in the less developed areas.

In conclusion, the good health of the economic system seems to be the necessary condition (if not the sufficient one, as we shall see hereafter) for succeeding in this endeavour. Let me now briefly comment on Figure 2.2 that summarizes the major dimensions of the new Chinese economy and society, the success, problems, difficulties, and obstacles, as well as the policies needed to overcome the difficulties, by indicating the main links between these sets of variables.[88]

The success of the economic development (especially when measured by GDP, and by GDP per capita) is represented in the middle of the figure, and depends upon the knowledge necessary for designing and implementing the policies mentioned above, and more particularly upon the mastery of the introduction of market mechanisms sustained by the role played by banks, SOEs, and financial markets. This in turn implies the implementation of some of the policies presented at the bottom of the figure, namely the restructuring and re-capitalization of SOEs and banks (more particularly the elimination of NPLs), and the adoption of a legal system capable of sustaining the development of economic activities in the new areas of the economy open to competition, namely the establishment of the principle of legal security without which no rational activity is possible within this new type of economic space. This strategy needs, together with some of the other policies to be mentioned hereafter, a rational management of public finance (taxation and expenditures).[89] Given the scope of the policies necessary for correcting the negative consequences of the introduction of market mechanisms, and the consequent need of huge financial means for the Central Government, it has been necessary to put an end to the fiscal decentralization set up in the 1980s and to re-centralize the fiscal capacity in favour of the Central Government.[90]

Moreover, in order to make the transition from a command economy, where the government determines almost all the parameters of economic activity, to another economy in which market mechanisms play an increasing role, the state needs to develop and master the macro-economic policies typical of this type of economy. These new state functions entail the need to develop human resources, either by training the existing civil servant or by improving the competencies of the institutions of higher learning that will be entrusted with the task of training young people in those areas of management (policy analysis, implementation and evaluation) necessary for university level students who may be tempted by a career in the civil service and in the SOEs. This strategy will create a reservoir of talents from which the state can in the future recruit the competencies it needs. Moreover, the Party Schools at all levels could also play the role of training civil servants and cadres of the SOEs.[91]

Coming now to the consideration of the results obtained by the development strategy adopted by China after 1978, we can again point to the spectacular

improvements mentioned above, but however also to several negative consequences represented at the top of Figure 2.2. Economic development in conjunction with the one-child policy has accelerated the ageing of the population, and this is the first factor demanding the setting up of a modern pension system. The second consequence of the market mechanism has been the development of disparities within provinces and regions, as well as between provinces, regions and municipalities. The rift between rural and urban areas has thus been considerably widened. The first consequence of this phenomenon has been the appearance and growth of unemployment (one of the factors explaining poverty), that was practically absent at the time of the command economy. That this would be the outcome of the introduction of market mechanisms could have been easily forecast either by sound socio-economic theory or by available empirical data on the development path followed by Western countries.[92]

A study by the World Bank very clearly shows this point.[93] At the end of the Mao era and the command economy the distribution of income was quite fair (low Gini index just above 0.2) and the number of poor people was quite high. But, as soon as market mechanisms were introduced, economic efficiency was boosted and poverty decreased dramatically. Nevertheless, at the same time income distribution became more and more unequal (Gini index well above 0.4). Moreover, we observe that following the Party Congress of September 1997 (that confirmed and even accelerated the reform process) the number of poor people is increasing. Some more recent data confirm this new trend, which very likely corresponds to the appearance of new forms of poverty (both in the rural and urban areas) linked to the development of market mechanisms, as is the case in Western countries.[94] The appearance of unemployment, in conjunction with the one-child policy and the consequent de-structuring of the traditional solidarity, needs to be compensated by the setting up of another social policy: unemployment insurance.

Coming back to Figure 2.2, we see that unemployment has also an impact on migration. Unemployed and underemployed people in the most vulnerable zones (especially in the rural provinces and areas) try to seek working opportunities in the urban areas where the dynamism of the economy is creating new jobs. Of course the majority of these new jobs are to be found at the lowest level of the salary hierarchy, especially in construction and services.[95] Working conditions of these people are most of the time minimum, to say the least, and have attracted much criticism from abroad, but also from several circles within mainland China. Notwithstanding, the situation of these people is slightly improving since the government has taken several measures to protect them.[96] Moreover, as was the case for migration within Europe and elsewhere for centuries, migrant people generally find in the hosting country (or in the case of China in the hosting provinces) better opportunities than they would have enjoyed, had they remained in their home town or village. As a consequence, in the case of China, migration from rural villages led to significant increases in consumption per capita, and this effect is stronger for poorer households within villages.[97]

Nevertheless, the migration mentioned above, that involves according to reliable estimates at least 120 million people, exerts a considerable pressure on the

infrastructures of urban areas. This in turn necessitates the (re)definition of the land use planning policy (including urban infrastructures) and an additional pressure to set up a modern safety net also covering migrant workers. Moreover, in order to fix part of the population in the rural areas,[98] and to reduce the gap between rural and urban areas, the Chinese leadership has set up (since the mid-1990s) a policy of investing in the infrastructures of the Western poor provinces and the rural areas in general.

Finally, the economic development has aggravated the situation of the Chinese environment, and this requires the setting up of regulations supported by effective controls. The conjunctional ageing of the population, increasing disparities, unemployment, migrations, and environmental deterioration has aggravated the health of the Chinese people both in the rural and urban areas. For the latter, an additional negative consequence of disparities has been the migration from rural to urban areas of competent people working in the health services, attracted as they are by better job and salary opportunities offered by the cities.

Last but not least, the opening up of the Chinese economy, especially after the entry of China into the World Trade Organization at the end of 2001, has put additional pressure on the government for the development of a legal system compatible with the international obligations China has subscribed to as a member of the international economic system. This pressure is complementary to the one exerted by the introduction of market mechanisms within the Chinese economy. They both require the establishment and implementation of legal rules compatible with the functioning of market mechanisms.

The list of problems and policies necessary to solve them is quite impressive. What is even more impressive is that the corresponding changes in Chinese society are happening practically simultaneously and over a relatively short span of time, contrary to their evolution in Western countries which had at least a century to adjust their policies to the consequences of the Industrial Revolution. In both cases, the consequences of economic development have been a radical change of the structure of Western and Chinese societies. Changes in social structure are per se neither positive nor negative. It all depends upon the balance between improvements and drawbacks, as well as upon the measures the governing elites take in order to help individuals to adjust to the transition. I have already presented data about the major improvements realized thanks to the reforms, and I have simply enumerated the major negative impacts. Before we evaluate the importance of these negative consequences and we try to assess the validity of the measures taken by the Chinese leadership in order to correct them, we need to present the new structure of Chinese society and evaluate the opportunities and challenges it poses to the government.

According to Hu Angang, the biggest challenge to China in the twentieth century is not how to further speed up economic growth, but how to maintain a sustainable and equitable growth to reduce poverty and promote human development by focusing on the purpose of development instead of on development for the sake of development. The 'people first' approach to development means to invest in the people, serve the people, develop the economy for people and promote human

development to enhance the people's development capabilities and increase their development opportunities.[99]

### *3.4 The changing structure of Chinese society: opportunities and challenges*

I have already presented the major changes in the economy, measured by total GDP, per capita GDP, the transfer of manpower from agriculture to industry and services (measured by both employment and contribution to GDP), and the impact of reforms on human development (measured by the UNDP Human Development Indicator integrating life expectancy, education, and GDP per capita). But what is the new structure of Chinese society? This is not an easy question to answer, as data are not always either reliable or available. Nevertheless this task is essential if we want to understand the challenges that are facing the Chinese leadership.

#### *3.4.1 The new Chinese social classes*

First of all, there is a general agreement that the new social structure is considerably different from the old one, in spite of the persistence of some features of the old Maoist and even Imperial eras.[100] The old 'class status system' of the Maoist era was mainly based upon political criteria; that is, a mix of Marxist and political classifications. For example, in the rural areas: rural worker, poor peasant, middle-low peasants, middle-high peasants, rich peasants, land owners; but also revolutionary soldiers and martyr-revolutionary families. This system made it possible to tell friends from enemies, the 'expropriables' from the beneficiaries. Moreover, the transition from a Marxist classification to a political classification based upon attitudes (the 'reds' vs. the 'bad categories') made it possible for Maoist power to isolate its enemies, and even to invent new categories according to the goals and strategies of Maoist power. Finally, since belonging to a category determined access to resources (money, power, and prestige), this class system created new forms of inequalities. With reforms, the positioning of people within the social structure changed considerably, as a consequence of the changes of the economic structure, even if the political criteria did not completely disappear. But would inequalities disappear? Or would some new inequalities be the by-product of reforms? In the following paragraphs I propose to present the new social structure as comprising the following four classes or categories: the power elite, the intellectuals, the middle class, and the workers, employees, peasants and migrant workers.[101]

##### THE POWER ELITE

This class is subdivided into two groups. First, the political elite composed of the top cadres of the Party, who not only keep their position as a group, but also acquire new resources in the economy. Second, the economic elite composed of the state's technocrats of banks and big SOEs, top cadres of big and medium-size

private and semi-private enterprises (often former cadres of the Party), owners of big and medium-size private enterprises, often linked to the Party's cadres within the well-known exchange power-for-money.[102] An increasing number of these people sit within official organizations such as the National Congress and the Consultative Assembly.

### THE INTELLECTUALS

This is maybe the most difficult category to characterize. As it is generally admitted for other countries, Chinese intellectuals may not share the same political culture, but on the contrary may possess different ideals, and have different types of relations with the Party and the state. In fact, I came across several cases where an intellectual is classified by some observers as a conservative, and by some others as a reformist, or even as a member of the 'New Left'. Without being in the position to propose a fully satisfactory classification of intellectuals, I nevertheless consider that the following gives an idea of the great variety of ideological positions of Chinese intellectuals, and may constitute a reasonable starting point for research in view of a better classification. For the moment, let me propose the following classification comprising three groups.[103]

The liberal or neo-liberal supporters of economic reforms were very influential between 1978 and 1989. It is amongst these intellectuals that one can find the most radical liberal and neo-liberal reformers. Some of them even favoured more radical reforms, including democratization along Western lines, but they mainly favour the liberalization of the economy. Although they are still present and active within the state's think tanks and universities, they have recently lost part of their influence to the advantage of the following group.

The 'statists' have become very influential especially after 1989–92. They criticize the negative consequences of reforms, but for them the state should continue to lead the reforms, and they do not favour radical reforms toward democratization according to the Western model, but progressive democratization. Moreover, they do not challenge the leadership of the Party. They are active within the governmental think tanks (e.g. the National Reform and Development Commission [NDRC]), within the universities (faculties, university research centres and think tanks). They constitute a highly competent, effective, and reliable support to Party and government, by providing both 'academic –scientific research' and policy advice in all domains of state activity.

Some members of these two groups support the power elite and a minority of them belongs to the elite. They also have some connections with the managers of the mass media controlled by the Party, as well as with the managers of SOEs or even private enterprises.

The members of the New Left are more radical than the statists. Some of them may still refer to Marxian analysis, but others are more generally open to critical analysis not necessarily of Marxian origin, and some of them try to find a Chinese way to modernity, which sometimes makes reference to genuine Confucian ideals. Some of them publish regularly in the *New Left Review*, and are active mainly

within universities, sometimes in the same units as the 'statists'.

Note that many of the Chinese intellectuals (especially those who graduated after the Cultural Revolution) have spent several months or even years abroad studying and/or teaching; and this has given them the competencies and knowledge that are useful for the Party and state in order to conceive strategies and policies for managing the problems Chinese society is facing today.

### THE MIDDLE CLASS

It is difficult to have a precise idea of the size of the middle class, as there is no clear agreement about the criteria to be used to define it. Generally, a certain level of disposable income is used for this purpose; but at what level can a household be considered to belong to the middle class? Bearing these difficulties in mind, my own estimation, based on the recoupment of several sources is about 126 million; that is, 16 percent of total workforce. (The workforce was about 790 million in 2006.)[104] I further subdivide this class into two levels. First, the upper-middle class (about 31 million, 4 percent of total workforce) comprises managers of the state's small and medium sized enterprises (SMEs), owners of private SMEs, white collar employees of foreign-invested companies, and white collar employees of state monopolies. Second, the lower-middle class (about 95 million, 12 percent of total workforce) comprises specialized technicians, scientific researchers, teachers and professors of the medium and high levels of learning institutions, lawyers, medium-level civil servants, medium-level cadres of SOEs, employees of artistic institutions and of the media, independents (merchants, restaurateurs, etc.).

A recent study published on the internet by the McKinsey Quarterly, using data from the National Bureau of Statistics of China on urban households (number of households and their disposable income) arrives at a larger size for 2005: 22 percent, composed of 12.6 percent for the 'lower-middle class' of urban households, earning between 25.001 and 40.000 yuan per year, and holding together 15.4 percent of the total urban disposable income; plus 9.4 percent for the 'upper-middle class', earning between 40.001 and 100.000 yuan a year, and holding together 24.2 percent of total urban disposable income.[105] (Yuan is the Chinese currency, also called Renminbi, RMB.) Their projections for 2015 and 2025 are very optimistic. It is forecast that in 2015 the size of the urban middle class will be 70.9 percent (49.7 for the lower-middle class, and 21.2 percent for the upper-middle class) of urban households, with disposable income of 66.2 percent (38.6 for the lower-middle class, and 26.7 for the upper-middle class) of total urban disposable income. Projections for 2030 are even more optimistic, especially as it is forecast that a large part of the lower-middle class will join the upper-middle class: 'by 2025 this segment [i.e. the upper middle class] will comprise a staggering 520 million people — more than half of the expected urban population of China — with a combined total disposable income of 13.3 trillion renminbi'.[106] Overall, in 2025 the middle class will represent about 80 percent of the total urban population.

It is not at all sure whether many Chinese researchers will share this very optimistic forecast. It is dubious that an income of between 25,000 and 40,000 yuan

can qualify for joining the middle class, if we take into consideration the cost of lodging in urban areas, and above all the cost of social security; that is, old age pension, health, and education. As a Chinese researcher has put it: 'tomorrow's middle-class consumers are today's urban workers (dispersed across many cities and still relatively poor)'.[107] If today relatively poor workers are not provided with adequate education and training, and with a performing social security system, it is likely that they will have to face poverty when they retire during the next 20 years. For them, joining the middle class may very well remain a wonderful but unfulfilled dream.[108]

### WORKERS, EMPLOYEES, PEASANTS AND MIGRANT WORKERS

This class comprises about 663 million (i.e. 84 percent of total workforce). I propose to subdivide it into three groups. First is the workers and employees (about 275 million, i.e. 35 percent of total workforce). Here I propose to classify workers and employees with little or no qualifications working in SOEs, collective enterprises, joint ventures, and private enterprises. For these people it is interesting to note that before the reforms there was, within the planned economy, an equilibrium between the management of production and the distribution of rewards, these two functions being controlled and managed by the Party. The main problem then was the totalitarian character of the Regime that left very little freedom in the economy, as well as the low standard of living. After the reforms, enterprises had to face competition, and consequently they reduced their workforce; and even the SOEs did not always comply with the rules of collective work contracts. People's standard of living improved compared to the situation within the planned economy system. People are freer to move within the economy, but the main problem now is the very keen competition amongst employees and the uncertainty in the labour market.

The second group is the peasants (about 388 million, i.e. 49 percent of total workforce). In spite of the rapid process of modernization (see Table 2.1, p. 57),

*Table 2.5* The social classes of China

| | *1* | *2* | *3* | *4* | *5* |
|---|---|---|---|---|---|
| Social class | Officials | Managers | Owners of private enterprises | Specialized technicians | Clerks |
| % | 2.1% | 1.6% | 1% | 4.6% | 7.2% |
| | *6* | *7* | *8* | *9* | *10* |
| Social class | Individual business | Waiters | Workers | Peasants | Unemployed persons |
| % | 7.1% | 11.2% | 17.5% | 42.9% | 4.8% |

Data source: Lu Xueyi, 'On the changes and development of the social structure of China', *Journal of Yunan Nationalities University*, vol. 23, no. 5, 2006.

they still represent the largest class within the Chinese population. Their income is still very low. Moreover, until recently they were subjected to many taxes and fees that were fortunately abolished between 2003 and 2006. The number of poor people in rural areas is estimated at about 100 million.

The third group is the migrant workers (estimated between 120 and 200 million).[109]

As I have already mentioned, it is the disparity in economic development that is the main reason for the massive migration movements from the rural and less developed areas to the urban ones, where job opportunities are more attractive, even if the jobs offered to migrant workers are still today at the lowest end of the salary hierarchy. Regardless, I have also pointed to the positive effect of these migrations on the consumption of the families of the migrant workers.

A different classification of China's new class structure, but complementary to the one presented above, has been provided by Lu Xueyi (see Table 2.5), who considers 10 classes, based upon types of occupation.[110] If we add the percentages of classes 5, 7, 8, 9 and 10[111] we obtain 83.6 percent which is quite close to our estimate of the total population of workers, employees and peasants. Classes 1, 2, 3, 4, and 6 amount to 16.4 percent, which is quite close to our estimate of the middle class. It is within these categories that the political and economic elites are to be found. As their number is very likely quite small, so will be their percentage in relation to the total population. For this reason, in conjunction with the difficulty of precisely estimating the number of these people, I have chosen not to evaluate the size of the Chinese elite.

Finally, it is interesting to remark that the changes in the structure of Chinese society are also recognized by the Chinese leadership. For example, according to the report to the 16th National Congress of the CPC, the new situation of social classes in China was described as follows:

> With the deepening of reform and opening up and economic and cultural development, the working class in China has expanded steadily and its quality improved. The working class, with the intellectuals as part of it, and the farmers are always the basic forces for promoting the development of the advanced productive forces and all-round social progress in our country. Emerging in the process of social changes, entrepreneurs and technical personnel employed by non-public scientific and technological enterprises, managerial and technical staff employed by overseas-funded enterprises, the self-employed, private entrepreneurs, employees in intermediaries, free-lance professionals and members of other social strata are all builders of socialism with Chinese characteristics.[112]

This statement, while it recognizes the new and complex structure of Chinese society, is also a clear tribute to the theory of the Three Represents defined by President Jiang Zemin, as it translates the desire of the Chinese leadership to reconstruct the unity of the Chinese people in spite of the societal fragmentation produced by the development process.[113]

I can conclude once again, that the changes driven by economic development must be evaluated by taking into consideration on one side the overall impact on the people concerned and, on the other side, the effectiveness of the measures taken by the state in order to make the transition as smooth as possible.

The description of the new structure of the Chinese population must now be completed by three additional dimensions: demography, employment, and urban-rural structure.[114] Here again, these dimensions are neither positive nor negative. But they will pose several challenges to the Chinese leadership, and if they are not met with adequate policies, they could very well generate some consequences that could negatively affect the bottom line of economic development.

### *3.4.2 The new demographic structure*

The changes in China's demography are closely related to the one-child family planning policy started at the beginning of the 1970s, after two decades of very animated discussions within the Chinese leadership with some important input from research undertaken within universities.[115] In order to control the dramatic increase of the size of the population, the Central Government decided to implement a number of regulations governing the size of Chinese families. This policy is in principle strictly enforced for urban residents and government employees. Nevertheless, there are some exceptions that allow having a second or even a third child. In urban areas it is possible to have a second child if the first child is disabled, or if both parents work in high-risk occupations, or are themselves from one-child families. In rural areas, the implementation of this policy is more relaxed. For example, if the first child is a girl, a second child is generally allowed. For some ethnic minorities and for remote and under-populated areas, even a third child is allowed. The family planning policy has played a very efficient and critical role in restricting the size of the population. According to the Chinese authorities, this policy has prevented 250–300 million births. The total fertility rate, defined as the mean number of children per woman, decreased from 2.9 in 1979 to 1.7 in 2004, with a rate of 1.3 in urban areas and just fewer than 2.0 in rural areas,[116] and the birth rate is also decreasing rapidly from 29.77 percent in 1972 to 12.40 percent in 2005.[117] On the other side, thanks to the development of the health conditions and of the socio-economic situation, the life expectancy improved to 71 years for men and 74 for women in 2007.[118] Inevitably, the rapid decrease of the birth rate associated with the improved life expectancy makes the ageing of the population a crucial issue as the dependency ratio is increasing. In China, the percentage of the population over 65 increased from 5 percent in 1982 to 7.5 percent today, and is expected to rise to more than 15 percent by 2025.[119]

The second outcome of family planning policy has been the transition from the extended family to the nuclear family. This transition has resulted in the so-called '4–2–1' phenomenon, which is becoming predominant in Chinese society; that is, an increasing number of couples will be responsible for the care of one child and four parents, and therefore the burdens borne by couples will become heavier and heavier. In international comparison, the speed with which China has become an

ageing society is much more rapid than that experienced in the past by Western countries. It took a transitional period of about 100 years for Western countries, but less than 20 years for China. Another important peculiarity of China's ageing population is that it occurs while China is still in the phase of transition from an underdeveloped to a developed economy, while the ageing of Western countries occurred after they had developed their economy. This means that the implementation of the policies needed for dealing with the problems of an ageing society (especially old age pension, and health) have been financed more easily in the West, thanks to the financial means available in a relatively rich society. On the contrary, as China is still in the process of creating a well-developed economy, it is more difficult to raise the financial means needed for the implementation of these policies. Hence, the demographical structure of China has become a critical challenge for the Chinese leadership, and will necessitate, as we shall see in more detail in the next chapter, the design and implementation of a new social security system. This policy appears to be even more urgent when we consider the changes in the employment structure.

### *3.4.3 The new employment structure*

As I have already discussed the changes of the economic structure, I will only briefly enumerate their impacts on employment. First, Table 2.1 has documented the huge and rapid transfer of manpower from agriculture to industry and services. Second, with the liberalization of the internal economy and the introduction of new forms of property, some new forms of companies started their economic activities within the new economic system. So, for example, foreign-invested companies and private companies became active along with the traditional SOEs. The introduction of market mechanisms, and their corollary, competition, exerted a phenomenal pressure over SOEs that were forced to restructure, and to introduce modern managerial techniques that would enable them to reduce production costs. It was then inevitable that SOEs would lay off huge numbers of redundant employees. Moreover, the traditional social security system, based upon the provision of social services by the SOEs's production units, was further damaging their competitiveness compared to the other companies. The consequence is that SOEs were no more in a position to fulfil their traditional social functions. It was then inevitable that they would be freed (at least partially) from their social obligations. And this situation further sustains the need to set up a modern social security system compatible with the new market-oriented dimensions introduced into the Chinese economic system.

Third, and related to the first point, another consequence of the economic reforms and the difference in employment opportunities between rural and urban areas is that since the mid-1980s the redundant peasants began to migrate to the cities, the township and the villages where job opportunities were becoming more attractive in industry and services. Today, the migrants have become a very important component of the labour force and contribute very much to the development of urban areas. One researcher claims that migrant labour contributed to 16 percent of

total GDP growth during the past two decades.[120] Today, the number of migrants is estimated to have reached between 120 million and 200 million. Unfortunately, access to local social security for migrant workers is related to their *Hukou* status. The *Hukou* system was introduced in the 1960s in order to solve the economic crisis and famines. It divides citizens into several groups: agricultural residents, non-agricultural residents, permanent residents and temporary residents. In the logic of the planned economy, the system restricted peasants from entering cities, which guaranteed the labour force in rural areas but deprived them of many rights, including social security benefits, enjoyed by urban residents. When peasants started to migrate to the urban areas, attracted by better job opportunities after the beginning of reforms, the consequence of this system has been that the migrants, who are still tied to their rural *Hukou*, cannot enjoy the same benefits as the residents with the city *Hukou*. This is a very important issue faced by contemporary government.

### *3.4.4 The new urban–rural structure*

The disparity between rural and urban areas is one of the typical and more important characteristics of Chinese society. Generally speaking, there are two main reasons: the imbalanced development strategy and the *Hukou* system. In order to speed up the pace of industrialization, the PRC adopted the imbalanced development strategy, giving priority to the development of urban and coastal areas. Since then, the agricultural sector and the rural areas have contributed very much to the development of the industrial sectors and urban areas. On the other hand, with the development of general socio-economic conditions, and especially with the improvement of job opportunities in the urban areas, the *Hukou* system could no longer prevent peasants from migrating from rural areas to the cities; as a consequence large numbers of peasants moved to the cities to work and live. However, due to the dual social security system based upon the *Hukou* system, migrants, as I have said before, cannot enjoy the same benefits as urban citizens.

This dual situation resulted in considerable differences of income and social welfare benefits between urban and rural areas, and the *Hukou* system contributed, to a certain extent, to a further increase in this gap. The Central Government paid more attention to this disparity and proposed a balanced development strategy for urban and rural areas in 2002.[121] Recently, the restriction of the *Hukou* system was relaxed and some pilot projects were implemented with the aim to permit the transfer of the *Hukou* status, especially in some small and medium-size cities. Also, the integration of the social security system between urban and rural areas was put on the agenda, and some related research has been conducted and some pilot projects have been implemented. Nevertheless, the disparities between rural and urban areas, which in part correspond to the disparities between provinces, constitute one of the major negative consequences of the imbalanced economic strategy adopted by the PRC, especially after the beginning of reforms in 1978. As I have just pointed out, these problems have been recognized by the Chinese leadership, as they constitute one of the more serious threats to social and political stability, and

are being addressed by a number of public policies. Nevertheless, huge disparities still exist today, which have been measured by several researchers.

### *3.5 The consequences of the unbalanced economic development*

There are a number of research projects on the disparities introduced within Chinese society as a consequence of the reform process. Here I will present some of them that are particularly useful for illustrating the importance of the phenomenon as well as its complexity.

#### *3.5.1 Disparities between provinces*

Let us start with the results taken from recent research by Xialolu Wang published by the Asian Development Bank.[122] Wang uses different indicators of development for the purpose of ranking the Chinese provinces and discovering the differences amongst them.[123] The individual indexes (with scores between 0 and 10) are then combined in order to obtain an overall index (also with scores between 0 and 10). Taking the overall index, what very clearly stands out from Wang's research is that three coastal provinces and three of the four municipalities under the direct supervision of the Central Government occupy the upper ranks with scores between 4.71 and 6.64 (i.e. Shanghai 6.64, Beijing 6.27, Tianjin 5.96, Guandong 5.23, Zhejiang 5.16, and Jiangsu 5.04)[124] whereas five inner and western provinces are at the lowest end of the ranking with scores between 2.79 and 3.66 (i.e. Tibet 2.79, Guizhou 2.97, Qinghai 3.20, Gansu 3.23, and Ningxia 3.28), the other provinces being placed in between with scores between 3.66 (Yunnan) and 4.76 (Liaonong). By taking the individual indicators, we discover that the gap between the coastal and the other provinces is much wider, especially if we use the economic regional index, even if the ranking is slightly changed. Three municipalities and one coastal province have scores between 5.88 and 9.96 (i.e. Shanghai 9.96, Beijing 8.67, Tianjin 6.15, and Zhejiang 5.88) five coastal provinces present scores between 3.31 and 4.71 (i.e. Jiangsu 4.71, Guandong 4.70, Fujian 3.79, Shandong 3.36 and Liaoning 3.31) whereas the scores of the remaining 22 provinces range between 0.43 (Yunan) and 2.42 (Jilin). These findings very strongly suggest that the level of economic development is a strong discriminator amongst Chinese provinces. By then calculating the correlation coefficients between the overall and the individual indicators, Wang identifies (see Table 2.6) the other main factors that explain the gap between Chinese provinces; that is, that the individual indicators that have the highest correlation with the overall index are economic development (0.917), infrastructure (0.868), education (0.852) and institutional development (0.787).

More detailed and sophisticated research conducted by Yang Yongheng and Hu Angang at Tsinghua University further analyzes the differences among Chinese provinces.[125] After having commented on the methodology used by the UNDP for its Human Development Index (HDI) Yang and Hu proceed to an analysis of the differences and similarities amongst Chinese provinces using the UNDP data about

*Table 2.6* China's development: correlation between the overall index and 11 sectorial indicators

| | OVR | EDV | PRD | HD | EDU | SE | PBS | SS | IFR | EVP | IDV | NRG |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| OVR | 1.000 | | | | | | | | | | | |
| EDV | 0.917 | 1.000 | | | | | | | | | | |
| PRD | 0.733 | 0.613 | 1.000 | | | | | | | | | |
| HD | 0.671 | 0.507 | 0.407 | 1.000 | | | | | | | | |
| EDU | 0.852 | 0.670 | 0.552 | 0.638 | 1.000 | | | | | | | |
| SE | 0.667 | 0.538 | 0.361 | 0.510 | 0.798 | 1.000 | | | | | | |
| PBS | 0.424 | 0.496 | 0.356 | –0.078 | 0.465 | 0.439 | 1.000 | | | | | |
| SS | 0.674 | 0.446 | 0.540 | 0.542 | 0.659 | 0.388 | –0.056 | 1.000 | | | | |
| IFR | 0.868 | 0.912 | 0.592 | 0.395 | 0.706 | 0.531 | 0.594 | 0.485 | 1.000 | | | |
| EVP | 0.322 | 0.287 | 0.213 | 0.350 | 0.086 | 0.041 | –0.267 | 0.035 | 0.073 | 1.000 | | |
| IDV | 0.787 | 0.706 | 0.506 | 0.741 | 0.575 | 0.368 | –0.031 | 0.631 | 0.602 | 0.494 | 1.000 | |
| NRG | –0.198 | –0.162 | –0.149 | –0.334 | –0.218 | –0.216 | 0.145 | –0.200 | –0.149 | –0.364 | –0.483 | 1.000 |

Source: Wang Xialolu, 'Who's in first? A regional development index for the PRC', Asian Development Bank Institute, Discussion Paper, no. 66, May 2007.

Notes:
OVR=Overall Development
EDV=Economic Development
PRD=Productivity and R&D
HD=Human Development
EDU=Education
SE=Social Equity
PBS=Public Services
SS=Social Security
IFR=Infrastructure
EVP=Environmental Protection
IDV=Institutional Development
NRG=Natural Resources and Geographic Location

the well-known UNDP indicators; that is, life expectancy, education, and per capita GDP. Thanks to this analysis, and comparing the results obtained by the three one-dimensional analyses (for the three UNDP indicators) they first identify, for the year 2003, four tiers of provinces with a high degree of intra-group similarity, and classified in a decreasing performance order:

> Under the criterion of per capita GDP, the distribution of provinces is closely related to their geographical location and economic development history. The three municipalities under the State Council, namely Beijing, Shanghai and Tianjing fall into first tier, and the six provinces in the second tier are those coastal economic open regions which have grown rapidly since the reform and opening up. About half of China's provinces are in the fourth tier (15 provinces), where people still suffer from poverty and harsh living conditions. The four tiers distribute in a pyramidal shape, which indicates that China's economic development is seriously polarized.[126]

Commenting then on the results of the multi-dimensional analysis for the year 2003 Yang and Hu consider that the first tier (Shanghai, Beijing, Tianjin) realizes comprehensive and coordinated development in economy, education, and health, and reaches a high level of human development as defined by the UNDP. The second tier (Zhejiang, Liaoning, Guangdong, Jiangsu, Fujian, Heilongjiang, and Shandong, i.e. provinces in the coastal region) exceeds the national average in all the aspects, particularly in economic development. The third tier (comprising 16 provinces)[127] is parallel to the national average in education and health, but lags behind in economic development. Finally, the fourth tier (Qinghai, Gansu, Yunnan, Guizhou, and Tibet, i.e. several western or central provinces) falls behind the national average in all three development aspects, among which the gap in education is the most striking.

Finally Yang and Hu proceed to a historical analysis that allows them to determine the evolution of the Chinese provinces from one tier to another, by using again HDI data for 1982, 1995, 1999, and 2003. Since the beginning of reforms, the distribution of provinces within the four tiers has changed. Between 1982 and 1995 all four tiers made remarkable progress in economy and education, and three provinces jumped from the third to the second tier (Fujian, Shandong and Hainan) forming a group of coastal provinces; that is, those provinces that benefited most from reforms and opening up to the world economy. But some of the provinces that in the past constituted the industrial basis of China (Jilin, Heilongjiang and Shanxi) suffered from the restructuring due to the reforms and dropped from the second to the third tier. The overall result was that the disparities between the first two tiers and the other two have further increased.

Since 1999 there have been improvements in all four tiers for health and education, but the economic disparities have become even greater. Finally, by 2003 the third and fourth tiers reduced the gap between them and the upper tiers in education, but due to the remarkable economic development of the first tier the gap in economic development with the other tiers has been further widened. Commenting

on the results of their research, Yang and Hu arrive at several conclusions. First, the reform strategy giving priority to economic development has brought a more rapid development in the economy than in education and health. Second, they consider that a 'coordinated development of education, health, and economy is prerequisite to a more balanced development' and they observe that all the four tiers are now heading toward a 'Coordinated Human Development' as defined by UNDP. Third, the reforms 'have brought about increasingly serious regional economic disparities, and have made economic disparities the most predominant cross-regional gap'. Finally, they draw our attention to the fact that they use the provinces as the basic unit for their analysis, whereas 'the disparities within provinces, especially between urban and rural areas, can be extremely huge'.[128]

This research confirms one of the main findings of Hu Angang about the disparities in Chinese society as they have been developing since the 1980s. Hu is famous, among other things, for having forged the expressions:

> One China two systems — One China four worlds and One China, four societies. […] Two systems does not refer to 'one country, two systems' carried out between the mainland and Hong Kong, and Macao as well, but to two different systems of identity, education, employment, public service, and financial transfer for the inhabitants in rural and urban areas. 'Four worlds' refers to the reflection of China's unbalanced development in different regions.[129]

In his book, *China's New Development Strategy*, Hu demonstrates that farmers have been left far behind the urban regions (especially in the coastal provinces).[130] This segregation exacerbates income disparity between the rural and urban populations and is responsible for the decline in public services for the poor. Moreover, according to Hu, China is an even more complex society, as he considers that it can be subdivided into four societies: farming, manufacturing, services and knowledge. Only about 5 percent of China's workforce is engaged in what Mr Hu calls the knowledge society which comprises people working in sectors such as technology, education, health, finance, business and the civil service. In order to narrow the gap, Hu suggests that the government should speed up the process of urbanization, invest more in the economically backward western provinces and accelerate the development of manufacturing, service and knowledge sectors.[131]

### *3.5.2 Disparities between rural and urban areas, and between rural areas*

The research by Yang and Hu presented in the preceding section has already drawn our attention to the fact that the use of provinces as the basic unit for their analysis does not tell the whole story because, as they say, 'the disparities within provinces, especially between urban and rural areas, can be extremely huge'.[132] In Table 2.7 you will find the most recent data (2006) on the disparities between urban and rural areas within the Chinese provinces. These data confirm the results obtained by Yang and Hu pointing to huge disparities between rural and urban areas within provinces. Moreover these disparities are generally higher within

*Table 2.7* Per capita annual income of urban and rural households (2006)

| | | *Urban Areas* | | | *Rural Areas* |
|---|---|---|---|---|---|
| *Ratio (3)/(2)** | *Region* | *Disposable Income (3)* | *Total Income (1)* | *Region* | *Net Income (2)* |
| | National Average | 11759.45 | 12719.19 | National Average | 3587.04 |
| 2.41 | Beijing | 19977.52 | 22417.16 | Beijing | 8275.47 |
| 2.29 | Tianjin | 14283.09 | 15476.04 | Tianjin | 6227.94 |
| 2.71 | Hebei | 10304.56 | 10887.19 | Hebei | 3801.82 |
| 3.15 | Shanxi | 10027.70 | 10793.89 | Shanxi | 3180.92 |
| 3.10 | Inner Mongolia | 10357.99 | 10811.87 | Inner Mongolia | 3341.88 |
| 2.53 | Liaoning | 10369.61 | 11230.03 | Liaoning | 4090.40 |
| 2.68 | Jilin | 9775.07 | 10245.28 | Jilin | 3641.13 |
| 2.58 | Heilongjiang | 9182.31 | 9721.90 | Heilongjiang | 3552.43 |
| 2.26 | Shanghai | 20667.91 | 22808.57 | Shanghai | 9138.65 |
| 2.42 | Jiangsu | 14084.26 | 15248.66 | Jiangsu | 5813.23 |
| 2.49 | Zhejiang | 18265.10 | 19954.03 | Zhejiang | 7334.81 |
| 3.29 | Anhui | 9771.05 | 10574.51 | Anhui | 2969.08 |
| 2.84 | Fujian | 13753.28 | 15102.39 | Fujian | 4834.75 |
| 2.76 | Jiangxi | 9551.12 | 10014.61 | Jiangxi | 3459.53 |
| 2.79 | Shandong | 12192.24 | 13222.85 | Shandong | 4368.33 |
| 3.01 | Henan | 9810.26 | 10339.20 | Henan | 3261.03 |
| 2.86 | Hubei | 9802.65 | 10533.34 | Hubei | 3419.35 |
| 3.09 | Hunan | 10504.67 | 11146.07 | Hunan | 3389.62 |
| 3.15 | Guangdong | 16015.58 | 17725.56 | Guangdong | 5079.78 |
| 3.10 | Guangxi | 9898.75 | 10624.30 | Guangxi | 2770.48 |
| 2.88 | Hainan | 9395.13 | 10081.70 | Hainan | 3255.53 |
| 4.02 | Chongqing | 11569.74 | 12548.91 | Chongqing | 2873.83 |

| | | *Urban Areas* | | | *Rural Areas* |
|---|---|---|---|---|---|
| *Ratio (3)/(2)** | *Region* | *Disposable Income (3)* | *Total Income (1)* | *Region* | *Net Income (2)* |
| 3.11 | Sichuan | 9350.11 | 10117.00 | Sichuan | 3002.38 |
| 4.59 | Guizhou | 9116.61 | 9439.31 | Guizhou | 1984.62 |
| 4.47 | Yunnan | 10069.89 | 10848.10 | Yunnan | 2250.46 |
| 3.67 | Tibet | 8941.08 | 9540.86 | Tibet | 2435.02 |
| 4.10 | Shaanxi | 9267.70 | 9938.19 | Shaanxi | 2260.19 |
| 4.18 | Gansu | 8920.59 | 9586.46 | Gansu | 2134.05 |
| 3.81 | Qinghai | 9000.35 | 9803.13 | Qinghai | 2358.37 |
| 3.32 | Ningxia | 9177.26 | 10002.03 | Ningxia | 2760.14 |
| 3.24 | Xinjiang | 8871.27 | 9689.07 | Xinjiang | 2737.28 |

Data Sources: 2007 China Statistical Yearbook, National Bureau of Statistics of China, Beijing, website: www.stats.gov.cn/eNgliSH/statisticaldata/yearlydata/ (accessed 19 May 2008).

* Author's calculation.

the less developed provinces situated in the interior and in the West. Taking disposable income in urban areas and net income in rural areas, the lowest ratios (between 2.26 and 2.49), are found in Tianjin, Shanghai, Beijing, Jiangsu, and Zhejiang. Disparity ratios between 2.5 and 3 are found in Hebei, Liaoning, Jilin, Heilongjiang, Fujian, Jiangxi, Shandong, Hubei, and Hainan. Ratios between 3 and 3.5 are found in Hunan, Shanxi, Inner Mongolia, Anhui, Henan, Guandong, Sichuan, Guangxi, Ningxia, and Xingjian. Ratios between 3.5 and 4 are found in Tibet and Qinghai. Finally, the highest ratio (over 4) exists in Chongqing, Gansu, Guizhou, Yunnan, and Shaanxi.

I propose now to further complete our analysis of disparities in China by considering the results of recent research by Albert Keidel in the framework of the Carnegie Endowment for International Peace, dealing with the disparities between the rural areas belonging to different provinces.[133] If the disparities between provinces often reflect the disparities between more urbanized provinces and those with a larger agricultural sector, as the Yang and Hu research has demonstrated, this does not mean that the situation of rural areas is basically the same in all these provinces. The Keidel research in fact shows that there are considerable differences between rural areas belonging to provinces with a different level of urbanization. In order to construct his unit of analysis, Keidel builds two groups of 'regions'. In order to take into consideration the very special case of municipalities like Shanghai, Beijing and Tianjin (that are highly urbanized with small rural areas and have been granted a statute equivalent to the provinces) and of the provinces that

do not possess an important urban area, Keidel has aggregated some municipalities and provinces in order to construct some new 'aggregated greater provinces' with both important urban and rural areas. These are: Greater Hebei (comprising Hebei, Tianjin and Beijing); Greater Jiangsu (comprising Jiangsu and Shanghai); Greater Sichuan (comprising Sichuan and Chongqing); and Greater Guangdong (comprising Guangdong and Hainan). The 26 provinces so obtained are then regrouped into seven regions.[134] The 26 provinces and the seven regions constitute the two units of analysis of Keidel's research.

Based upon these units of analysis, the research shows that there is significant inequality between the seven Chinese regions as well as between the 26 individual provinces, in terms of GDP per capita. For the seven regions, the highest-to-lowest GDP per capita ratio is over 3.5, whereas at the 26-provincial level it is more than 5.5 (i.e. between Greater Jiangsu and Guizhou). Keidel is therefore right in questioning the usefulness of such results, as they are biased by the huge migrations that have taken place since the beginning of reforms, and accelerated since the mid-1990s. Not only should we take into consideration the present-day migrants (estimated between 120 and 200 million) but also the previous generations of migrants coming from rural areas who have settled in other provinces since the beginning of reforms in the 1980s. According to Keidel 'this requires an adjustment in thinking about the urban-rural distinction'.[135] In order to avoid measurement difficulties arising from the phenomenon of migration, Keidel proposes to use household survey data for rural households. This method provides some very useful insights within one of Hu Angang's four Chinese societies; that is, rural China.

The first interesting result obtained by this method is that rural household disparities between China's regions are large, especially between the coastal and the interior areas. Using a historical approach (considering data every five years between 1985 and 2005) Keidel shows that rural per capita income has grown in all regions, but more in the coastal regions (between 7.4 and 8.5 percent) than in the interior (between 6 and 6.7 percent). Taking then into consideration consumption expenses, the divergence is confirmed and the ranking of regions is the same, even if the size of the divergence is weaker than for income. So, not only is there a gap in terms of per capita income and consumption between Chinese rural areas, but the gap is widening all the time. Finally, Keidel proposes a sophisticated analysis to evaluate differences between rural areas in terms of the rate of poverty that is not possible to present here in detail.[136] It suffices to say that, by taking two coastal provinces and three inner ones, Keidel shows that the rate of rural poverty is much lower in the coastal provinces, using any of the available poverty measures.[137]

May I comment that the number of people living below the level of poverty in China is difficult to evaluate. As is the case generally, this evaluation is necessarily done by fixing a level of wealth, under which a household is considered as being poor. And this of course is subject not only to methodological choices, but also, and above all, to interpretation and debate.[138] Regardless, it is admitted by Chinese scholars, that starting from the mid-1990s, in spite of the dramatic decrease of absolute poverty (the World Bank has estimated that China has brought out of poverty

more than half a billion people between 1981 and 2004) new forms of poverty have emerged in both rural and urban areas.[139]

These results suggest that divergence between coastal and inner rural areas is going to widen in the future in terms of income, consumption, and very likely also in terms of poverty rate. This may constitute a formidable challenge (and for some an impossible mission) for the Chinese leadership. Nevertheless, Keidel proposes an interesting and more encouraging interpretation, by putting these results in perspective with the overall development strategy of China. First, the rate of growth (in terms of both per capita income and consumption) is so high in all the regions that issues of convergence or divergence become less important.[140] In other words, in spite of the widening gap between rural areas belonging to different provinces, the overall outcome of China's economic development is so important that in every rural area there is a substantial improvement in terms of both per capita income and consumption.[141] Of course Keidel implicitly applies here the logic of economic development followed by Western countries since the beginning of the Industrial Revolution that led to an overall improvement of per capita income, in spite of an increasing divergence between different categories of people.[142] Moreover, Keidel suggests that whether inequalities will constitute a negative consequence of economic development or on the contrary 'useful incentives for voluntary labour force movement to more productive locations and vocations' will depend on the capacity of the market to create large numbers of better-paid jobs in the urban areas, and on the ability of the government to favour the development of infrastructure in all domains (transport, communication, energy, but also education, health and social security) that will contribute to a more balanced development of the economy.[143]

It thus appears that this more encouraging conclusion of Keidel's research does not mean that the government should not take very seriously the increasing disparities within Chinese society and let the market mechanisms do the re-equilibrating job. I have already mentioned, and will deal with this subject more in detail in the third chapter, that the Chinese government has already taken several serious measures to diminish such disparities.

### *3.5.3 Negative consequences of the difficulties in implementing market mechanisms*

Setting up a market economy (even if in an incremental way as it has been done in China) is certainly not an easy task. The Western experience is generally considered as a model to be followed by developing and in transition countries even if one admits that the model should be adapted to the local conditions. Amongst the numerous institutional arrangements that can help the development of sound market mechanisms (and finally to institute a mature market economy) two stand out as being of fundamental importance: the financial and the legal systems. Experience shows that it is not possible to realize this objective in a short period of time. It is therefore not surprising that China has experienced some difficulties in this endeavour.

WEAKNESSES OF THE CHINESE FINANCIAL SYSTEM

The majority of Western, as well as some Chinese, scholars are unanimous in considering that the Chinese financial system (including banks and financial markets) is too weak to be able to play the role of a strong catalyser within the Chinese economy. This statement is certainly based upon an analogy with the market economy that was developed in the West. In Western countries (although with differences that are not possible to develop here) the financial sector is an essential part of the market economy as the many economic crises have shown a contrario, starting from the great crisis of 1929 and up to the crises of the 1990s and to the financial and economic crisis of 2008–9. For example, Riedel, Jin and Gao have devoted an entire book to the analysis of the weaknesses of the Chinese financial system.[144] These authors recognize that 'important reforms have been undertaken in the financial sector, including the restoration of a commercial banking system, the emergence of a fledgling bond market, and the establishment of stock exchanges in Shanghai and Shenzhen, and these reforms have not been without success'. Nevertheless, they very severely criticize what they call China's repressive financial policies 'that have limited access to non-bank savings instruments and forced households and business to accumulate large savings account balances to meet the cash-in-advance constraint they face due to the restrictions on their access to credit'. Moreover, only one-third of outstanding stock is tradable, bonds are almost entirely placed and traded in the inter-bank market, the right to issue bonds is severely restricted and the price of corporate bonds is administratively determined, and interest rates in the banking sector are also controlled. They further explain these repressive policies by the fact that they 'serve the government's development strategy by maximizing the flow of resources to the government and the industrial enterprises it owns'. By applying traditional liberal economic thinking, they regret that this situation discourages financial savings and misallocates scarce capital resources in a situation where 'the private sector is the main engine of industrialization and growth in China'.[145] They develop this thesis in the second chapter of their book with an impressive apparatus of liberal economic analysis, not always with the care that one would expect for the analysis of such a complex process of modernization as the Chinese one. Just one example. At the beginning of chapter 3 devoted to 'saving and financing of investment in China', they peremptorily affirm that 'when government borrows to finance investment, it also inevitably crowds out private investors in financial markets', implicitly considering that government borrowing will increase the interest rate and thus make money more expensive for private investors.[146] Now, the crowding out hypothesis is by no means as straightforward as it is generally considered by neoclassical economists, as many other variables can also probably affect the interest rate.[147]

The other important aspect of the criticisms addressed to the Chinese financial system is related to the situation of SOEs in the process of transition from command to market economy. Within the command economy SOSs were not subject to the pressure of competition and the consequence has been a low level of efficiency. With the introduction of competition in the reform era, SOEs experienced serious

difficulties in improving efficiency, thus accumulating considerable annual deficits that were covered by state-owned banks upon the orders given by the government. This practice resulted in enormous non performing loans (NPLs or bad loans); that is, loans that these SOEs were very likely not in a position to reimburse in any foreseeable future. The estimated size of NPLs at their highest peak (i.e. in 1999) totalled 2.5 trillion yuan for the big four commercial banks and about 3.5 trillion yuan for all commercial Chinese banks.[148] The official estimates for 2004 put the total of NPLs at US$300 billion, or 15 percent of outstanding loans, but some experts estimate that it could be as high as US$500 billion, or 25 to 30 percent of loans outstanding, or about 50 percent of GDP.[149] This situation throws light on two problems of the Chinese economy in transition: first the weak efficiency of SOEs, and second the political character of Chinese state-owned banks that led them to lend money on the basis of political considerations instead of commercial ones.[150] It is for this reason that the majority of Western observers never considered Chinese banks as 'real banks' until the government set up a strategy for improving their governance based upon economic and commercial considerations. At the same time the government promoted the restructuring of SOEs, and even closed down those that were not likely to become profitable, or merged several SOEs in order to build more viable production units thanks to scale effects. In spite of these difficulties even Riedel, Jin and Gao concede that 'China has achieved high rates of investment and growth'.[151]

In the next chapter I will briefly present the progress made in this important sector. Nevertheless I would like to point out right now that some scholars have a much less negative evaluation of the Chinese financial system. For example, in his analysis of the disparities between rural regions in China presented above, Keidel considers that 'China has a successfully operated a dual-track financial sector that introduces reforms in its severely immature market-based financial institutions while simultaneously improving its large scale direct-credit system allocating major portions of bank and postal savings to public investments such as infrastructure'.[152] This is quite an interesting evaluation from someone who has brought to light some of the negative consequences of the Chinese economic strategy for development, but who at the same time recognizes the capacity of the Chinese leadership to channel savings toward one of the most efficient factors for promoting economic development; that is, infrastructure. If it is true that during the first decades of reforms investment has been mainly directed toward physical infrastructure, starting from at least 2004, and confirmed solemnly at the 2007 Party Congress, the Chinese leadership has taken some serious measures in order to direct investments toward what I call soft infrastructure; that is, education, health and, more generally, toward the setting up of a modern social security system.[153] By doing so, the improvement of human capital is added to the improvement, quite impressive already today, of physical capital. When one considers the amount of money that, at the moment of writing this chapter, is being injected into the Western (and especially American) financial systems to correct the unbelievable mistakes made by the managers of some of the most famous and (at least until now) esteemed financial institutions, one is rather embarrassed to recall the many

and severe criticisms that Western experts have addressed to China in this domain in recent years.[154]

Finally it is necessary to mention another negative consequence of the economic development, linked to the weak performance of SOEs. As I have already mentioned, in order to favour the adaptation of SOEs to the new economic structure that was based on an increasing number of market mechanisms, the government promoted the restructuring of these enterprises in order to improve their efficiency in the new economic structure that favoured a corporate strategy of reducing production costs. This was done by improving the corporate governance, by making SOEs responsible for their budget (meaning that the government would not necessarily cover the deficits as it has done in the past). As one of the means of reducing cost is to reduce the cost of labour, one of the most spectacular measures taken has been to lay off millions of state workers and employees.

Evaluating the size of unemployment in China is not an easy task, not that the tendency to hide part of unemployment is a typical Chinese habit, compared to many governments which try to hide this negative aspect of their own countries. But it is generally recognized that actual unemployment is much higher than the official statistics show. In the presence of contradictory estimates, let us propose an approximate rate of about 10 percent in the urban areas, and much more in the countryside, where there is also a considerable amount of under-employment.[155] Moreover, the cost of unemployment is considered as a very negative consequence of economic development not only because of its economic cost, but also because it affects many people who are not responsible for their predicament and drives them into the very low end of the social structure, and for many even below the poverty level. Hu Angang has measured the cost of unemployment between 1997 and 2000 as being between 5.2 and 7.4 of GDP.[156]

### THE WEAKNESS OF THE CHINESE LEGAL SYSTEM

Taking again the Western model as a standard for measuring the capacity of the Chinese legal system to constitute a framework and a stimulus for the development of the economy based upon the introduction of market mechanisms, many Western observers, and even an increasing number of Chinese experts of public law, consider that one of the major weaknesses of the reform process, is the slowness with which China is implementing a legal system capable of playing this role. In the first chapter I have already mentioned the traditional obstacles that exist on the road to the development of a legal system Western-style. An astonishing number of existing laws and regulations have been revised, and a great number of new legal instruments have been adopted. These innovations have started to design a formal environment capable of introducing the predictability as a result of the implementation of legal norms. Predictability is the sine qua non condition assuring the stability and security of the legal system needed by economic actors in order to be able to behave rationally within the economy. In spite of these considerable innovations, many observers still complain about the incompleteness of the Chinese legal system that impedes even more impressive economic development.

In fact, because of this uncertainty many actors hesitate to take full advantage of the opportunities market mechanisms offer.[157]

This criticism reinforces the one about the weaknesses of the financial sector. Setting up a sound legal system compatible with the development of market mechanisms is certainly an important step toward the completion of the Chinese legal system, as it will sustain one of the major objectives (if not the most important one) of the Chinese government: economic development. But this should not divert from the development of other panels of law, such as administrative law, the improvement of legal procedures before the courts and the empowerment of citizens so that they can defend the rights that several laws have attributed to them since the beginning of the reform era. I am thinking here more particularly of the new contract law that institutes an improved protection for employees. This is also a domain that if managed with care will help the Chinese leadership to satisfy an increasingly educated population, and thus to contribute to assure social and political stability. I will come back to these aspects at the end of the last chapter of this book.

### *3.5.4 The impact of economic development upon the environment*[158]

Last but not least, China's economic development had a very important negative environmental impact, thus aggravating an already worrying situation. The rapid industrialization and urbanization processes are the main factors responsible for this difficult situation facing the Chinese leadership. Moreover, the impact on the physical environment (i.e. on soil, air, and water) has a dramatic collateral impact on human environment aggravating the health of large parts of the Chinese people, whose health is further worsened by the weakness of the health insurance system, and more generally of the overall social security system. It is not possible in the context of this book to fully explore the several dimensions and problems of the Chinese environmental crisis. It suffices to mention the most important ones. I will first describe the main sources of environmental problems in China and, second, the major environmental challenges.

#### MAIN FACTORS HAVING AN IMPACT ON CHINA'S ENVIRONMENT

In China, concerns about the environment are linked to two elements: the size of the population and economic development. The conjunction of these two factors strongly suggests the probability of an increased pressure on natural resources in the decades to come.

#### THE POPULATION EXPLOSION

The Mao era is marked by an unprecedented population growth. While in 1954, the Chinese census counted about 600 million people, the population had reached 937 million at the time of Mao's death (1976) and 1.3 billion today.[159] This population explosion is due to socio-economic as well as to political factors. First of

all is the Chinese tradition of early marriage and multiple offspring, and thus the maintenance of a high birth rate despite a sharp reduction in mortality.[160] Second, the political leaders were slow to recognize the problems engendered by the rapid and large increase of the population. Indeed, the argument of decreasing returns described a century earlier by Malthus, which sets a link between population growth and limited resources, has been swept away by Engels, Marx, and Mao. Any reference to population problems has been considered by the Chinese authorities of that time as an expression of rightist propaganda.[161] The dominant opinion is that for Mao, a large population was synonymous with power: 'with a large population, power is great'.[162] In this perspective, the huge Chinese population represents an unexpected potential of productive energy that, if mobilized, will be of fundamental importance for rapidly establishing socialist society. It is this huge population that will allow implementing the necessary energy for realizing the Great Leap Forward.

The generally admitted result is that this policy choice has been a mistake.[163] Indeed, the pressure exerted by the growing size of the population increases both the quantity of water used in productive processes, and the amount of polluting emissions. Moreover, it reduces the space available per capita.[164] As a consequence, deforestation, pollution and famine will be the bitter consequences of these pronatalist policies. Nevertheless, we have seen above (section 3.4.2) that during Mao's era a family planning policy was adopted and incrementally implemented. But the fact that about 20 years were necessary for this policy to be adopted and fully implemented has certainly had the consequence of exacerbating the implementation of birth-control policies for the following decades, especially the one-child policy systematically implemented during the 1980s. This new policy goes against the Chinese tradition of multiple offspring and of the economic needs of rural populations, for whom children were traditionally the only prospect of guaranteeing social security.[165]

#### SOCIAL DEVELOPMENT, POPULATION GROWTH AND URBAN INDUSTRIALIZATION

While China remains a predominantly rural nation, the urban population has however taken alarming dimensions in terms of pressure on the environment. Exponential growth of cities is still going on despite the legislative measures that have restricted freedom of movement with the purpose of limiting rural exodus (e.g. the *Hukou* system). We have seen that this system has been recently relaxed in order to favour the transfer of the rural workforce to the urban areas, in an attempt to diminish rural unemployment and under-employment, thus improving the standard of living of the population. Bearing this in mind, the generally accepted opinion concerning the size the Chinese population will attain by 2030 is based upon a forecast of about 1.5 billion people, distributed more or less equally between the rural and the urban areas.

Since the beginning of the reforms, the spectacular economic development, the substantial improvement of the standard of living of almost the entire population, and the emergence of a middle class with a high propensity to increasing

consumption, mean that the production process is bound to be further developed. As a consequence, there will be some serious additional pressures that will result in increased use of electricity and water, an expansion of the number of motor vehicles, and increased consumption of goods that are no longer limited to those of first necessity. All this will imply increased use of natural resources, especially since a major objective of the Party in terms of economic development is to quadruple GDP from 2000 to 2020.

Industrialization, already rapidly developing under Mao, takes far greater dimensions with the reform efforts undertaken since the 1980s. This impressive industrial development is accompanied by an increase in the emission of pollutants, characteristic of the early stages of industrialization. The modernization of production creates demand for significant quantities of energy, still largely produced in China with coal, which is by far the most polluting source of energy.[166] In addition, as mentioned before, China's industry is showing low efficiency; that is, in terms of the amount of energy required for the production of one unit.

### AGRICULTURE

Methods of intensive agriculture are today being widely used in China. Therefore, the cultivation of land needs irrigation devices, which implies a changing of the hydrological balance. In China, the use of fertilizers and pesticides was introduced quite late, but it has grown rapidly in a few decades making the country the first world producer and consumer.[167] The resulting reduction of space available per capita, and therefore the increasing pressure on food have prompted authorities to launch campaigns for increasing agricultural production by reducing the size of forests for the benefit of agriculture. Agriculture can also be a factor of global warming, as the culture of irrigated rice (which is very important in China) emits considerable masses of methane ($CH_4$, a greenhouse gas with a global warming potential 21 times higher than $CO_2$), because of the decomposition of vegetables.

### ECONOMIC GROWTH AND ENVIRONMENT

Since the breakdown of the relationship between humankind and nature at the time of the Industrial Revolution, the links between economic growth and the environment have become more and more visible today. Based on consumption, economic growth implies that we produce and consume more and more, and logically, that we use increasing quantities of natural resources, while rejecting more and more waste into the biosphere.[168] Therefore, economic growth implies in its very essence an impact on the environment. It is then up to the political agenda to determine what proportion of this impact is acceptable. However, if economic growth basically implies some pressure on the environment, it is important to consider that growth can be managed in a more or less friendly way for the environment.

### *3.5.5 Major environmental problems in China*

#### PROBLEMS OF WATER SHORTAGE, QUALITY AND ACCESS

Intimately linked to global warming, water issues tend to become one of the major challenges for China today and tomorrow. Whereas the country has significant water resources (third largest world's quantity), China's population is so large that the availability per capita is only one-third of the world average.[169] Geographically, the country suffers from a huge disparity, with the South, fuelled by a monsoon climate, experiencing more problems related to floods than by shortage. On the contrary, the North suffers from a severe water shortage due to significant seasonal rainfall variations. To further characterize China's situation, we note that the North-East supports 45 percent of the total population, with 60 percent of the cultivated land and only 15 percent of the water resources. Thus, the water shortage creates a pressure on the availability of this resource, and therefore an increase in pollution, as well as the emergence of conflict amongst potential users.

The problems of water shortage are linked to the needs of three users: households, agriculture, and industry. These needs are so great that some rivers do not get to the sea, as has been the case some years past for the Yellow River. Moreover, the total level of Chinese lakes has decreased by about 1/7. Today, about 400 cities out of 660 suffer from a water shortage,[170] while more than half of the wells and groundwater in northern China are contaminated and unfit for consumption. This situation justifies in the eyes of the Chinese authorities the undertaking of important hydraulic works such as the Three Gorges dam, or the transfer of the waters of the Yangtze over thousands of kilometres toward the Beijing area. Today, a qualitative problem has been added to the quantitative one, because of the spread of chemicals in aquatic ecosystems. Water pollution is a particularly difficult challenge facing the Chinese authorities because of the multiplicity of sources of pollution and the complexity of the water cycle. In China as elsewhere, it is possible to identify four major sources of water pollution: agriculture, industry, domestic needs, and energy production.

China has remained throughout its history a predominantly agricultural country. Although Chinese society has undergone profound changes in recent decades, much of the Chinese population (about 50 percent of the labour force, see Table 2.1) still makes its living in the countryside by working in agriculture.[171] In China, 62 percent of water consumption is levied for agricultural purposes.[172] Agricultural practices generate various forms of pressure on water resources. Quantitatively, first, the flooded rice cultivation — widespread in China — certainly allows good yields, but requires a constant supply of water through irrigation. With the population explosion of the twentieth century, the necessity for assuring food autonomy became even more important than before. China, with more than 20 percent of the world population to feed, possesses only 7 percent of the arable land of the globe. This explains the need for a highly productive agriculture sector. In qualitative terms, this type of production is based on modern methods such as the use of fertilizers and other pesticides. These chemicals seep into the soil and contaminate underground water. The consequences are numerous: damage to public health, changes to the ecosystems, and loss of biodiversity.

Since 1949, the structure of the Chinese economy has undergone many changes. At that time, the national economy was based mainly on agriculture. Giving priority to industrial development, the new government reversed the trend, so that in 1978, the industrial sector became more important than the agricultural sector in terms of contribution to GDP.[173] However, the new industrial sector has a low efficiency, and the reduction of the rate of poverty, thanks to economic development, became the top priority, thus relegating environmental concerns to second place. So, during the Mao era, priority was given initially to heavy industry, that needed huge quantities of raw materials and energy. Besides the emission of harmful substances, industry, as well as agriculture, generated pressure on water resources. Industrial production required large amounts of water.[174] Besides, as the PRC inherited a country devastated by decades of war and chaos, the idea of waste treatment was of secondary importance; development was the first priority.

The consequences of poor water management are numerous. Not only did the shortage of water became even more important than before, but problems with water quality appeared, because of water contamination by polluting substances released by intensive agriculture and industrial production processes. The increase in the proportion of heavy metals and micro pollutants in water sources necessitates increasingly complex and costly treatment methods. Moreover, access to safe drinking water remains a social problem in China, where huge numbers of people do not have direct access to drinkable water.[175] So, it appears that the consequences of poor management of water resources are economic as well as social. Health problems arising from poor water, both in terms of quantity and quality, inevitably engender social problems, especially in a country like China where access to health care is scarce. Moreover, this situation also engenders economic problems: costs of water treatment and of damages to public health.

### AIR POLLUTION

In terms of air pollution, measured in 'TCE, i.e. tons of coal equivalent' China is in second place globally, behind the US.[176] Apart from the impact of Chinese emissions of greenhouse gases on global climate, air pollution released by the Chinese economy also poses serious problems. The World Bank considers, for example, that 8 of the 10 most polluted cities in the world are in China.[177] Emissions of air pollutants have therefore two major consequences in China: on the one hand, the impact on climate change, and on the other hand, the impact of an unhealthy environment on public health, welfare, and biodiversity. In China, the main polluting industries are the paper industry, chemical industry, oil refineries, the metallurgical industry, and the automobile industry.[178]

The explosion of the demand for energy, with the main source in China represented by coal, is the cause of elevated levels of $SO_2$ and $CO_2$. China ranks first worldwide in terms of $SO_2$ emissions. Emissions of $SO_2$, responsible for lung diseases and acid rain which causes serious damage to ecosystems and significant costs to society, come mainly from thermal power and cement plants.

### FORESTS

Chinese forests have suffered, as elsewhere, large waves of destruction because of policies aimed at sustaining urbanization and agriculture. Forests constitute a fundamental factor for maintaining climate equilibrium because of the role they play as 'carbon sinks' by absorbing part of $CO_2$ in the atmosphere, thanks to the process of photosynthesis.[179] At the time of the instauration of the PRC in 1949, the destruction of Chinese forests was already well advanced. According to a study by Houghton and Hackler the process of deforestation went on thereafter until the 1970s, whereas from 1984 (date of the first law on forests) the limitation of forest destruction as well as reforestation have reversed the trend.[180]

### DESERTIFICATION AND SOIL EROSION

China faces problems of availability of arable land and thus of food security. Additional problems concern soil erosion and the expansion of desert areas, which threaten to further diminish the already inadequate surface of national arable land. It is estimated that desertification already extends over 23 percent of the territory, and is gaining 2,460 square kilometres per year. Soil erosion is due to over-use of fertilizers and pesticides, as well as to the deforestation of the river basins in the framework of intensive agriculture, with the consequence that China has lost hundreds of thousands of square kilometres. Knowing that the phenomenon of global warming exacerbates drought, the decline of arable land is even more worrying.

### ECONOMIC LOSSES

Environmental degradation results in many financial costs. These become apparent when decontamination of sites is necessary, when deforestation is carried out for the purpose of increasing the size of arable land, or when any other land use decision is taken arising from an environmental problem originated by man's activity. Water contamination by micro pollutants and heavy metals makes wastewater treatment dependent on highly technical and expensive methods. Economic losses arise when an economic activity is no longer possible because of pollution, for example when water becomes unfit for fishing because of pollution, when crops are decimated by acid rain or desertification, or when erosion due to over-exploitation prevents further cultivation of the soil. It is therefore essential to integrate these costs and shortfalls into the economic calculation, even though they pose major measurement difficulties in monetary terms. Thus, the cost of de-polluting damaged environments and of setting up cleaner production methods should be evaluated in relation to the economic losses caused by the destruction of ecosystems.

### THE IMPACT ON HEALTH AND THE HEALTH COST OF REFORMS

Finally, it is important to mention again the impact that the overall economic development had on public health. Hu Angang has evaluated the cost of health

problems due to the negative impact of economic growth at 7–8 percent of GDP.[181] Of course, not all the health problems experienced today by the Chinese population can be attributed directly to poor environmental conditions, such as water or air pollution. But it is certain that it is the overall economic development that has posed a formidable challenge to the government by changing the overall environment in which people live and in which they are affected by different and new forms of health insecurity, considerably different from those existing before the reform era.[182] These were, according to Hu Angang, the major problems of public health in China around 2003–4:

1 the disease incidence in urban and rural areas as high as 5 billion person/time, nearly half of whom were not referred to a doctor;
2 more than 80 percent or one billion of urban and rural people are not covered by medical insurance;
3 problems of being in poor health among women and children and people in poor areas were very serious;
4 the size of all kinds of health insecurity was large.

## Conclusion

At the end of this chapter we can conclude that the reform process initiated by Deng Xiaoping has certainly allowed China to realize astonishing results both in terms of overall wealth creation (GDP) and in terms of per capita income and consumption improvement for the great majority of the Chinese people. Unfortunately, several negative consequences have also emerged from this three-decade long process. These concern both the human and the physical environments. Inequalities and disparities in the distribution of the wealth so created are considerable. The gaps between rural and urban areas are the most striking, not only in economic terms but also (as there is a nexus between economy and other dimensions of the reform process) in terms of education, public services and infrastructure availability and access, including health care. The emergence of under-paid and under-protected rural migrants, and new forms of poverty touching both urban and rural areas, have shed light on the losers of economic development.

This situation is not very different from that which we experienced in the West during the first decades of the Industrial Revolution. Several generations of Western workers have been sacrificed on the altar of economic development. And nothing can be done today to redress the harm done to these people. The same situation is also basically valid in today's China. But there is something that is still possible to do today, because it concerns two components of China that are going to last more than a man's life. These are the Chinese physical environment and the present and future generations of Chinese people. As we have seen, disparities of course are important, and the Chinese leadership should devote all the efforts and money it can in order to correct these inequalities. But economic development is on a good track, and it is an essential factor for creating more wealth. It is up to the government to distribute the additional wealth so that disparities are

reduced. Of course, by applying strict neo-liberal economic reasoning and strategy, it could be possible to do even better in strictly economic terms, for example by rapidly improving the efficiency of the financial system, the SOEs efficiency and governance, and so on. But this runs the risk of further aggravating the existing disparities, and moreover, there are several indices that prove that development is taking place even in the absence of such improvements. On the contrary, damages to the human and physical environments could be irreversible. If the Chinese people lose faith in the capacity of the present leadership to provide a fair distribution of wealth, the old demons of people's revolt, very frequent throughout Chinese history, may again emerge and put an end to China's stability and harmony and jeopardize its newly found (relative) prosperity. On the other hand, the damages to the environment could also be irreversible. In this last context, China could play an important role internationally, by proposing adequate measures for reducing the environmental impact due to the present organization of the world economy, which until recently seems to ignore the numerous (and today well-documented) caveats from the scientific community.

In the following chapter, after a survey of the policies set up for dealing with the problems mentioned in this chapter, I will take one of the dimensions mentioned above; that is, the building of a sound social security system, as a case study for evaluating the will of the Chinese leadership to solve these problems. Of course this will also lead me to examine in the last chapter the relationship between the Chinese political leadership and the Chinese people. Questions related to the opening up of the political system will then be considered.

# 3 Correcting the negative consequences of economic development

## Introduction

In the second chapter I presented the outcomes of the strategy of economic development promoted by Deng Xiaoping and his successors; its positive as well as its negative impacts on Chinese society. In this chapter I will deal with the policies set up since the mid-1990s in order to correct the negative consequences of China's impressive economic development. I will start by presenting a general picture of these policies, and in a second part I will take the case of the reforms of social security. At the end of the second chapter I expressed the opinion that, whereas the measures taken for improving the functioning of the economic system seem to be sufficient for assuring reasonably sustainable economic development, the impact of urbanization and industrialization on the physical and human environment runs the risk of producing some negative irreversible outcomes in the medium and long term. It is therefore urgent to set up an efficient, even if modest, social security system, as one of the most important policies for rebalancing Chinese society by sustaining the standard of living of those who did not fully benefit from the spectacular results of China's economic development. Moreover, from the point of view of the capacity of the Chinese leadership to assure efficient governance, the implementation of an efficient social security system will certainly contribute to social stability, a paramount condition for maintaining economic and political stability and, thus, a reasonable pace of economic development.

## 1 The rebalancing of Chinese society: a general perspective

### *1.1 The new development strategy: 'people first'*

Let us start from a summary of the three successive development strategies followed by the Chinese leadership as have been defined by Hu Angang.[1] The first strategy adopted at the beginning of the PRC is the traditional development strategy implemented during the planned economy era, with the aim to 'catch up with UK and surpass USA'. In the mid-1960s Mao set the goal of achieving 'four modernization' goals by the end of the twentieth century by implementing policies of 'high accumulation, low consumption', giving priority to heavy industry, including the defence industry and capital-intensive industries, and providing import protection,

resulting in increasing disparities between urban and rural areas. The second strategy is the transitional development strategy defined in the 1980s by Deng Xiaoping. This was a 'three-step strategy', setting up the goal of quadrupling GDP,[2] trade and investment liberalization, market development and competition. This strategy is still centred around materials, with top priority put on speed of development. Deng Xiaoping advocated an imbalanced development, allowing some regions and some people to get rich first, by concentrating on the development of coastal regions. This resulted, as we have seen in the second chapter, in greater regional disparities, in enlarging gaps between urban and rural people, not only in terms of income, but also in consumption and access to public services such as education and health.

In order to correct the negative consequences of the first and second strategy, the Chinese leadership started to move toward a third approach to development in the late 1990s by first defining the 'Campaign to open up the West' that became a top priority for the government in the next decade.[3] This new strategy clearly changed the focus of development from a purely economic perspective to a socio-economic one, whose declared objective was to narrow the gap between the costal and the inner regions.[4] This strategy was first defined by Jiang Zemin in the mid-1990s, and was later developed by Premier Zhu Rongji's in his 'Report on National Economic and Social Development during the Tenth Five Year Plan' (2001–5) delivered to the People's Congress on 5 March 2001. The major dimensions of this strategy are:

1 infrastructure construction, such as land, air and water transportation facilities, power generation plants, and water conservation projects;
2 environmental protection;
3 adjustment of the industrial structure of the West, namely by putting more emphasis on the consumer goods industry and less on heavy industry and the defence industry, as has been done in the past;
4 the promotion of science, technology and education;
5 making the West benefit from the open-door policy.[5]

This strategy combines hard and soft infrastructure as two complementary components of the development strategy in favour of the West.[6]

The ground was prepared for this fundamental change in the development strategy by means of an important research work. In the fourth chapter I will present the role played by various organizations which contributed to gather the most relevant sources of theoretical thinking and empirical evidence that permitted the Chinese leadership to partially revise the foundations of its ideology, and to redefine its development strategy.[7] At this point, I should like to insist upon the fundamental role played by the universities, and more particularly by some influential intellectuals whose research was available by the end of the 1980s. Within the academy, there are of course some intellectuals who stand out as some of the major inspirers of the Chinese leadership. In the second chapter I have often referred to the works of Hu Angang, the founder and director of one of the most influential think tanks at Tsinghua University, which constitute the best example in this respect:

> among the many academic voices Hu Angang […] seems to have been most instrumental in creating a favourable intellectual environment for and in shaping the political discourse of the campaign to 'open up the West'. His role as a public intellectual behind various political initiatives in the latter half of the 1990s cannot be divorced from his outstanding position in Beijing's academic landscape and his special access to central policy-makers, which, according to hearsay, results from his family's personal connections to Zhu Rongji and other leaders.[8]

However, based on Hu Angang's own words, his father has no relationship with any Chinese leaders or governors; these are rumours. He confirmed that Chinese leaders are his 'readers' and very interested in his China Studies Reports, and added many postils and comments.

In fact, Hu started to work on a framework for analyzing China's development in the 1980s when he was preparing his PhD dissertation within the Chinese Academy of Sciences (CAS).[9] The thesis topic, 'population and development' was later developed with Zou Ping in a book published in 1991.[10] At the same time, Hu worked within a team of CAS researchers studying the conditions of China's long-term development; the English edition was published in 1992,[11] but made available to the Chinese leadership at the end of 1988; that is, before the Tiananmen events of June 1989.[12] These two books constitute a remarkable example of research conducted by Chinese scholars, making the best out of both Chinese and Western sources, which shows the great openness of this team of Chinese researchers to academic contributions from other parts of the world, as well as their high level of intellectual independence.[13]

The analysis presented in the book on population combines historical, demographic, economic, environmental, regional (namely the divide between rural and urban areas), as well as social and family planning perspectives, and poses the foundations for a comprehensive analysis of the development strategy China should follow, which is further developed in the second book on survival and development. One of the main findings of the research on population is that both theoretical and empirical models, especially Western models, cannot be transposed mechanically and directly into China, but should be evaluated taking into consideration the characteristics of the Chinese situation. A population theory that would not conform to the actual conditions in China is bound to lead to errors, and become dogmatic. This leads the authors to reject both traditional Marxist development theory[14] and the Soviet model of development, including their theory of population, and to adopt a model based upon the contradictions existing within Chinese society between the rapidly increasing population on one side and, on the other side, the shortage of production equipment, the increase in industrial raw materials, the development of employment, education, science and technology, the demand for grain, and the improvement of the living standards of people.[15]

This change of paradigm led to the adoption of birth control in China with the aim of reducing the fertility rate and hence to resolve, at least partially, the contradictions mentioned above. But this change could not have been possible without

the rejection of the hypothesis, prevailing at that time, that economic development is the cause of the drop in the fertility rate, and therefore it must precede it. Hu and Zou contest that such connection can be constructed as 'a simple cause and effect relation, regardless of time, place and condition'.[16] On the contrary, they consider that the relationship is very complicated and, by referring to the research on family reproduction in Europe conducted by Wei Jinsheng, they show that the drop in the rate of fertility:

> is not merely the result of the development of their economies and cultures, but the result of the concerted action by various combinations of factors, including economy, culture, history and customs. […] the fertility rate also began to drop early in countries with relative backward economy and culture. So the absolute view that the rapid drop in fertility rate can only occur following economic development does not conform to historical facts.

By taking the examples of countries such as South Korea, Singapore, Thailand and Malaysia, where the drop in fertility rate was the result of government policies, the authors conclude that, given China's situation, 'effective population growth control [by the government] would inevitably serve to provide very favourable conditions for an economic takeoff'.[17]

The book on survival and development identifies the fundamental problems China must face on the road to development, starting from the conditions of Chinese population and territory: 'excessively large population, a very poor economic foundation, backward education, culture, science and technology, a relative shortage of natural resources and a very low per capita GNP by world standards. These characteristics have remained basically unchanged and have become even worse in certain fields although China has made great progress in the past decade of reform.'[18] This research, which was made available to the Chinese leadership at the end of 1988, is remarkable not only for the quality of the analysis, but also because it pointed out the major problems of Deng's economic development strategy that were already clearly emerging in China at the end of the 1980s. It is unfortunate that the Chinese leadership was, in my opinion, not quick enough to react to the results and suggestions of this research. As a consequence, by the mid-1990s the negative outcomes of Deng's strategy had developed to a point that measures taken during the second half of the 1990s (and further reinforced during the following decade) have been rather slow in producing the necessary counterbalancing effects, as we have seen in the second chapter.[19] It is true that by then, research realized by imaginative and independent intellectuals had started to be needed, and even demanded, by the Chinese leadership.

It is not surprising that the report considers, as is also the case for the research on population mentioned above, that the basic problem for China depended upon the contradictions between population and resources. It is even more interesting to note that, at the end of 1988, this report points out the four major challenges resulting from the negative consequences of economic development, and that the authors do not hesitate to name 'China's unprecedented multiple crises':

1 in spite of the birth control set up by the government, the population continues to grow and it is rapidly ageing, posing a heavy burden on employment; moreover, the average literacy level is only 4.6 years, which is rather low if one seeks to develop the economy in sectors demanding a well-educated workforce; finally, the rapidly growing population is resulting in chronic unemployment and underemployment, especially in the rural areas;
2 agricultural resources are declining and approaching the limits of their carrying capacity; it is forecasted that the situation will become more acute in the future;
3 the rapid expansion of environmental pollution and the ongoing degradation of the ecosystem will become a major crisis affecting the survival and development of China in the first half of the next century;
4 a rapidly growing demand for grain and the difficulties in increasing grain production.[20]

Given this analysis, the report suggests that the following policies, some of them already adopted by the Chinese government, should be implemented for a considerably long period of time:

1 family planning
2 high rate of accumulation coupled with moderate consumption
3 development of education, science and technology
4 conservation of natural resources and protection of the environment
5 opening to the outside world, and maintaining sustained development.

Moreover, the report warns that the success of these policies will depend upon some important conditions such as the avoidance of the recurrence of serious mistakes like the Great Leap Forward and the Cultural Revolution, no massive nation-wide natural disasters, no large foreign invasion of China and that China will not be involved in other countries' military conflicts.[21]

The report also very strongly confirms that China should follow its own 'non-traditional' path to modernization, based upon:

1 low consumption of resources in the production process
2 moderate private consumption
3 sustainable development with constant improvement of economic efficiency while controlling pollution, maintaining ecological balance, and a reasonable use of natural resources (ecological efficiency)
4 but also a social system that ensures social efficiency and justice
5 an appropriate technological system that encourages innovations in all domains, including technological innovation
6 integration in the international economic system.

The authors are aware of the fact that this is not an ideal model, and moreover, that the knowledge Chinese people have acquired about the lifestyle of developed

countries will increase their expectations, and this will put an additional pressure on the Chinese leadership. Very reasonably the authors conclude that:

> we must tell the people frankly and sincerely that we do not have the potential to compare with developed countries such as the United States in resource consumption. […] our choice is not discretionary, but is dictated by circumstances. […] the keynote of this report is neither unrealistically optimistic nor pessimistic, it is rather cautiously and conditionally optimistic. […] The basic conditions are very harsh indeed, but this is the last opportunity presenting itself to China in its development. […] The report tells the people about the national conditions as they really are […] In the face of future development crises, it is possible for decision-makers, workers, intellectuals, and peasants to achieve a common understanding and recognition of the long, arduous and painful process of reforms and development. And this will produce a long and strong rallying power and make the people better prepared for a long period of hard work and strive to shake off the crises, overcome difficulties and realize rejuvenation of the Chinese nation in the twenty-first century.[22]

In commenting on this report, one can be surprised by the moderate optimism of the authors, knowing the phenomenal development of private consumption in the urban areas that took place in the following decade. More interesting is their concern about the necessity that all the segments of Chinese society should be aware of the difficulties facing the development of the country given the major contradictions presented in the report. And this is another sign that the values of unity and harmony constitute a strong cultural trait even amongst academic researchers trying to scientifically discover truth from facts. Even more interesting is the fact that practically all the major problems that broke out in China at the end of the 1990s are identified and analyzed in the report and that all the major leitmotivs of the new development strategy defined by Hu Jintao that 'put people first' are already clearly broached in the report: economic efficiency, but also social equity and efficiency, ecological efficiency, and innovation in all domains.

After the completion of the report on survival and development, Hu Angang spends one year as a post-doctoral scholar in the department of economics at Yale University between 1991 and 1992, where he works with another Chinese scholar, Wang Shaoguang. In 1993 Hu and Wang write a report, 'Strengthen the role of the Central Government during the transition toward a market economy',[23] that favours the centralization of Chinese policies, especially fiscal policy. This report is circulated in China and is at the origin of the centralization of fiscal policy decided by Jiang Zemin in 1995, and which gave to the Central Government more fiscal revenues.

Joseph Fewsmith argues that by 'focusing on extractive capacity, Hu and Wang chose to ignore other, more difficult (but nonetheless important) components of state capacity, such as legitimation capacity, corruption, and bureaucratic efficiency'.[24] I do not think that this statement is very accurate, as Hu and Wang have devoted considerable research efforts to the analysis of the increasing disparities

within China and have proposed policies aimed at rebalancing Chinese economy and society.[25] This is clearly a substantial contribution to the legitimation capacity of the Communist Party.[26] Moreover, as we have already seen above (when I presented the two books on 'population development' and 'population and survival' p. 105–8) Hu has developed, since the 1980s, a theoretical framework for the analysis of the relation between state and market that led to the conclusion that some domains cannot be left to the market, especially those aimed at reducing regional disparities.[27] At the beginning of the 1990s, the mastering of the evolution of the relation between state and market was certainly the major challenge to the Chinese leadership. As Zhang Xudong quite rightly has put it: 'Wang and Hu's argument can be regarded as one of the first systematic considerations of the state-market interrelationship in the Chinese context and one of the early responses to the economic collapse, political failure, and social tragedy of those transitional societies in Eastern Europe, especially the former Soviet Union and former Yugoslavia'.[28] Finally, Hu has been one of the more violent critics of the rampant corruption at all levels of the Chinese leadership.[29]

Of course, if one considers that the collapse of communist regimes is the inevitable outcome of history that will leave the political arena to liberal democracy and the economy domain to free market economy,[30] then the Wang and Hu argument can be regarded as flawed. The problem is that, in spite of the considerable problems and challenges faced by the Chinese leadership since the beginning of reforms we have dealt with in chapter 2, the Party has been able not only to maintain and accelerate the reform process and to keep it under control (which has not been the case for the Soviet Union) but has also satisfied the expectations of the majority of the Chinese people by considerably improving the living conditions of hundreds of millions of households both in the urban and rural areas, as I have shown in the second chapter. This outcome clearly shows that in some particular historical periods (as is the case for China since the collapse of the Empire) there are other ways of legitimizing power, and that for the Chinese population the improvement of material living conditions had, and still has today, precedence over an abrupt opening up of the political system that would grant to the citizens the freedoms of speech and association typical of liberal democracy. This can be explained by both or either of the following factors: the persistence of traditional features of the Chinese political culture that treasure unity and harmony (even at the expense of the submission of people to authority in all domains, as I explained in the first chapter) and/or the very low level of development existing at the beginning of the reform process, when it seemed that improvement of material conditions was more important to the people than the acquisition of political freedoms. We Westerners should not forget that in our historical experience political freedoms were not granted to everybody right at the beginning of the liberal revolution, but incrementally through at least one century.[31] Why should China follow a different path? Quite rightly Wang and Hu formulate policy proposals by taking into consideration the actual conditions of China, and not by referring to theoretical and ideological frameworks that may have produced satisfactory outcomes in different cultural, economic, social and environmental settings quite different from the Chinese ones.

This does by no means mean that political reforms are not necessary, as Hu Angang has been advocating for many years.[32]

Back to China in 1992, Hu Angang, as we have seen in the third part of the second chapter, has developed an impressive amount of empirical evidence about the increasing disparities within Chinese society, as well as a number of policy proposals, that have constituted the scientific basis for the generalization of the policies set up for the West to the entire Chinese population. These reports, prepared within the Centre for China Study, are read at the top level and have exerted a considerable influence on the transition to the third development strategy that puts 'people first', and to the preparation of the 11th Plan.

In February 2004, Zhu Rongji's successor, Premier Wen Jiabao recognized that China's fast economic development had resulted in the accumulation of issues and conflicts, such as enlarging gaps between urban and rural areas in income, enlarging regional gaps, increasing inequality in family income, mounting pressure of employment and social security, lags in the development of education, health and medicine, culture, intensifying conflicts between the growing population and development and in ecological environment and natural resources, low quality of the economic system and lack of competitiveness. Based upon this appreciation of the situation of Chinese society, Premier Wen Jiabao concluded that China must solve these problems in good time. According to Hu Angang, by doing so, Premier Wen defined the new approach to development; that is, the third strategy, based upon 'people first'. This strategy implies the following dimensions:[33]

1. implementation of harmonious development between the urban and rural areas to narrow their income gaps;
2. implementation of the western China Development Drive and the drive to revitalize the old industrial bases in northeast China with the purpose of narrowing regional gaps, especially the gaps between the western and eastern parts of the country and the gaps between the south and the north;
3. bringing economic and social development into good harmony;
4. implementation of 'green development' to improve ecological environment;
5. prioritizing employment to bring about an employment-based growth model.

This strategy strongly suggests that the biggest challenge to China in the twenty-first century is not how to further speed up economic growth, but how to maintain a sustainable and equitable growth to reduce poverty and promote human development by focusing on the purpose of development instead of on development for the sake of development. The 'people first' approach to development means to invest in the people, serve the people, develop the economy for people and promote human development to enhance the people's development capabilities and increase their development opportunities.

These policy options were confirmed at the last Party Congress of November 2007. In the framework of the third development strategy, hundreds of billion yuan have been invested in the poor provinces and regions. If it is too early to evaluate

the overall impact on the disparities, the fact that all the Chinese regions experience an improvement in terms of both income and consumption is an encouraging indicator that should help the government to confirm the validity of the new strategy. Other indicators are presented in the following paragraphs.

### *1.2 The improvements in the financial sector and of SOEs*

As we have seen in chapter 2, even scholars such as, for example, Riedl, Jin and Gao who are very critical of the organization of China's financial sector, recognize that 'important reforms have been undertaken in the financial sector, including the restoration of a commercial banking system, the emergence of a fledging bond market, and the establishment of stock exchanges in Shanghai and Shenzhen, and these reforms have not been without success,'[34] and that in spite of many difficulties in this domain, 'China has achieved high rates of investment and growth'.[35] In this context it is interesting to note that the size of the non-performing loans (NPLs), that have attracted some severe criticism from Western economists as we have noticed in chapter 2, has been considerably reduced in recent years. NPLs are the consequence of the practices of the planned economy when state-owned banks simply played the role of transmitting to the SOEs the money they needed on the basis of political considerations and not on the basis of risk assessment. This practice went on during the first decades of the reform era, thus resulting in considerable accumulation of loans that the SOEs were not able to reimburse. This incapacity was further aggravated by the poor economic performance of many SOEs. For dealing with the NPLs[36] the government first set up in 1999 four Asset Management Companies (ASM), one for each of the four big commercial banks,[37] with the mission of accommodating 1.4 trillion yuan of NPLs, equivalent to almost 20 percent of GDP. Then, in 2003 and 2004, 475.6 billion yuan of NPLs were stripped off from China Construction Bank (CCB) and the Bank of China (BOC), plus US 22.5 billion to support each of these two banks. Finally, in 2005, 705 billion yuan of NPL was stripped off from the Industrial and Commercial Bank of China (ICBC) with an additional injection of US$15 billion and the issuance of US$12.1 billion in subordinate debt. Parallel to this, the governance of the four big banks has been improved. The purpose of these state interventions was to make the initial public offering of these banks attractive for potential investors. In fact CCB was successfully listed in Hong Kong in 2005 followed by BOC and ICBC. The result of these reforms and state interventions is that the percentage of NPLs dropped in 2005 to as low as 4.5 percent for ICBC, 9.6 for BOC and 3.3 for CCB. Only the Agricultural Bank of China (ABC) still had a percentage as high as 23.5. Moreover, the Chinese government has recently approved the project of ABC to restructure itself into a shareholding bank, paving the way for its listing, with a reported injection of US$19 billion from the government.[38]

In the meantime serious measures have been taken for improving the governance of SOEs whose performance has greatly improved, to the point that some of them have become important global players.

### *1.3 The improvements in environmental protection*

It is in this domain that improvement has been generally considered less impressive, especially by Western observers, worried as they are by the increasing use of natural resources by the Chinese economy, which is in fact increasing the contribution of China to the world environmental damage. Moreover, not all the experts consider that the official Chinese statistics about the environment are reliable. Nevertheless, it cannot be said that the government has not taken and implemented several measures in order to put a halt to environmental degradation. And we have already seen, pollution not only damages the physical environment, but also the people, as it has affected their health. A number of measures have been taken to counter this environmental damage. First, a number of non-performing and polluting SOEs have been shut down. Second, the use of coal for heating has been reduced in the cities. Third, an important re-forestation effort has been carried out: for example, between 1998 and 2001, the Central Government has invested over 42 billion yuan in reforestation, management and restoration of state forests in 25 regions. And in formulating the new development strategy, the authorities plan to bring the forest coverage up to 28 percent of the territory by 2050. Fourth, since the beginning of the reform process, many laws and regulations have been adopted and implemented: after the first law on the protection of maritime environment of 1982, many other laws have been passed in the domain of water, prairies, fishing, land, wild animals, agriculture, air, etc. Moreover, several research institutes provide expertise to the authorities that will be useful for designing better laws and regulations, such as the Chinese Academy of Sciences, the Chinese Academy for Environmental Sciences, as well as a number of research centres at the local level.

Last but not least, several efforts for educating the Chinese population in the domain of environmental protection have been undertaken by both governmental agencies and non-governmental organizations (NGOs).[39] This is quite important as the protection of the environment must be a concern not only for the public authorities, but also, and above all, for the population of all ages and in all parts of China. Generally, public policies aim at changing the behaviour of people, interest groups and other organizations. This is achieved by issuing laws and regulations, and/or by providing incentives. In the economy everyone easily understands that they have to comply with the new rules of the game when the government quits the old planned economy and starts introducing market mechanisms. The market provides new incentives for improving the behaviour of both supply and demand sides, thanks to competition. For example, as an employee I will quickly adapt my behaviour to the new situation by adopting some more efficient working habits, because this is vital for me and my family. It is because we work better individually that, collectively, the country becomes more prosperous. However, in the environmental domain both households and enterprises find it more difficult to understand the purpose of economizing scarce resources such as water and electricity, and in not polluting air, water and soil. In this domain, what is primarily, and selfishly, important to people is their own comfort. So, contrary to what holds in the economy, in the environmental domain the reverse is true: it is because collectively we respect

the environment that individually we can enjoy fresh air, clean soil, and drinkable water. This new way of behaving in the environmental domain is necessarily based upon a change of the way individuals see and understand the use of scarce resources. This can be brought about by education, and this is what has been done in China since the beginning of the reforms. Education, if successful, will avoid the implementation of sanctions in the case of violation of laws and regulations. And this is clearly a more friendly way of managing environmental protection, as it avoids taking sanctions against those who violate laws on environmental protection. Of course, education is a long-term endeavour, especially when it is bound to change well-entrenched everyday habits.

The first experimental education programmes were introduced in Liaoning, Guangdong, Beijing, and Shanghai in 1979. They were followed by a decision of the Central Government in 1987 (confirmed in 1991 and 1992) stipulating that environmental education be compulsory in the school curricula, at elementary and secondary levels. Several textbooks were published; for example, the manual *Introduction to Environment* published by the People's Education Press (PEP) in 1993 to be used in colleges for an optional course. This book presents all the aspects of environmental pollution (water, air, noise, soil, etc.). In 1999 PEP published a guide for the professors. Moreover, PEP, working with the World Wildlife Fund (WWF) has prepared a book about the protection of the environment of the Yangtze River. Several internet sites have been developed on environmental protection (for example: www.pep.com.cn.eec/index.htlm) that can be used by both students and professors for finding information about the protection of the environment. There is also an academic journal: *Environmental Education*, as well as three centres for environmental education, created by the Environmental Educator's Initiative (EEI), a cooperation between the Chinese Ministry of Education, WWF and British Petroleum. The three centres have been set up within three universities: The Normal University Beijing, The South-West Normal University Chongqing, and the East Normal University of Shanghai. These centres have the task of writing a manual for the training of teachers and a manual for students. Moreover, they have set up a teaching programme for the elementary and secondary levels that has been tested in 34 pilot schools. These manuals will be then published by PEP. Other similar centres have been set up or will be created shortly.

At the government level, the main authority in environmental protection in China was until recently the State Environmental Protection Agency (SEPA), that after the beginning of 2008 has been reorganized within the newly created Ministry of Environmental Protection.[40] This ministry is mainly responsible for designing environmental policies, but is also in charge of supervising all the activities linked to environmental education in the framework of the Centre of Communication and of Environmental Education (CEEC) created within the SEPA. CEEC organizes information campaigns; it coordinates at national level the Green School Programme, that has the objective to train professors in charge of implementing the Green School Programme, and evaluates the implementation of the Green Programme in the schools. CEEC also supervises international cooperation.

In addition to government bodies, several non-government organizations

(NGOs) are active in China, such as Friend of Nature, Global Village of Beijing, WWF, and The Trust for Environment (which promotes The Environmental Education Television Project for China). Last but not least, several enterprises also have programmes in the domain of environmental protection, such as Bell, Exxon-Mobil, and others.

Finally, China, a signatory to the Kyoto Protocol (signed 29 May 1998), at the summit of the UN Conference on Sustainable Development in Johannesburg in 2002 declared that it would approve the Protocol. The formal acceptance on 30 August 2002 certainly is one of the major successes of this Protocol. This showed that not only was China taking environmental problems seriously, but also that it committed itself to behave as a major global player economically, politically, and environmentally.[41]

What are China's obligations? According to Article 10 of the Kyoto Protocol, China must:

1. develop national and regional programmes to improve the emission coefficients, as well as the data about activities, necessary for the establishment of national inventories of anthropogenic emissions
2. implement programmes to mitigate climate change
3. assist in the dissemination of information and technology related to the environment
4. promote scientific cooperation
5. improve people's education on climate change
6. include in its national communications information on programmes and activities undertaken in the framework of the Protocol.

Let us remark that as China is not included in Annex I of the protocol, it has no obligation of reducing emissions. But it may take part in the international efforts through the mechanisms of CDM flexibility.[42]

It is within this rich institutional framework that China has implemented its environmental policies. Apart from regulatory measures that may be used in this domain, by introducing market mechanisms within its economy since the beginning of the 1980s, China became aware of the possibility of using economic measures for protecting its environment. In the following paragraphs I will more particularly insist on measures that may have a potential effect on $CO^2$ emissions,[43] by briefly reviewing the following measures: (1) measures based upon persuasion; (2) laws and regulations; and (3) taxation. First, persuasion based upon the information obligation that China has contracted by signing the UNFCCC. It is in this context that the 'China Youth Daily' and the Central Broadcasting Station of China reserve a special place on climate change. Moreover, the official Chinese website (www.ccchina.gov.cn) provides environmental information on climate change to Chinese citizens. Of course the persuasion to behave in an environmentally friendly manner is not legally binding, but information about the disastrous effects of pollution can certainly have an impact on citizens' consciences about the importance of protecting the environment.

Second, regarding laws and regulations, several types of regulatory guidelines have been established since 1980, and have been regrouped in the new Energy Law. I will present those contained in the report made by China for the UNFCCC.[44] This report is also one of the only obligations that China and other developing countries must undertake. The guidelines presented in this report show what has been undertaken in the framework of the Convention and the Kyoto Protocol. Their aim is mainly to enable energy savings in various sectors (grouped under the name of 'Energy Conservation Law' that is in fact the new government's program for best saving energy resources). For example, measures taken in this framework concern: standards for construction,[45] transportation and industry with the aim of allowing energy savings; forests (regarding the management of forests as well as subsidies for reforestation projects), agriculture (for the aim of improving efficiency, but also for preventing illnesses and damage by animals); and waste management.

Third, as far as taxes are concerned, according to Chinese law the term 'environmental tax' is a generic term which refers to taxes related to natural resources and the environment. In the Chinese taxation system, there are more than 20 different taxes grouped into five categories: circulation taxes, income taxes, natural resources taxes, asset taxes, and behaviour taxes. Amongst these categories six are directly or indirectly linked to the environment: consumption tax, natural resource tax, vehicles tax, fixed asset investment tax, construction tax, and urban maintenance tax.[46] Moreover there are taxes based upon the principle that the polluting agent is responsible for paying for the damage. This type of tax is a response to numerous regional environmental problems, including acid rains. The state responded instituting a tax on pollutants, of which a good example is the tax on $SO^2$.[47] The money collected through this tax has quadrupled between 1986 and 1996.

A last remark about the subsidies the government gives to two particularly polluting sectors in terms of greenhouse emissions: energy and electricity. Over 80 percent of electricity comes from thermal power. To give a subsidy to this sector amounts to reducing the price of electricity, and thus to increasing consumption, and to using more fuel to run power plants, which degrades air quality. And this does not seem reasonable in the perspective of environmental protection. For energy, it is the production of coal and crude oil that is subsidized; that is, two of the most polluting products. In this context it is interesting to notice that coal accounts for 70 percent of total energy consumption, and oil for 17 percent. This means that by subsidizing these sectors, the Chinese government continues to cover the losses of coal and oil enterprises. The only reasonable explication must be found in the framework of China's development strategy, and its major objective that continues to be economic development as a means to enrich all the Chinese people. It is hoped that very soon more drastic measures will be taken for assuring sustainable development also in terms of environmental protection. It seems that this is the case, as the government has undertaken several measures in order to develop alternative energy sources respectful of the environment.

So, we can see that, in spite of the difficulties mentioned above, in the perspective of a long-term action for protecting the Chinese environment, many resources, public, semi-public, and private are today available in China for realizing one of

the main objectives of the Chinese leadership: rebalancing the relation between the physical environment and human (especially economic) activities.

It is in this context that Tsinghua professor Hu Angang has suggested the replacement of what he calls the 'black cat development' of the Deng era with the 'new green cat development' of the Hu Jintao era.[48] Hu starts by reminding us of one of the major goals of the 11th Five-Year Plan (2006–10); that is, to reduce energy consumption per unit of GDP by 20 percent. Even if China were to continue its 10 percent annual GDP growth, there are already signs that energy consumption and release of major pollutants in China have started to drop. Therefore, an average annual drop of 5.4 percent between 2008 and 2010 is possible. And Hu comments:

> the target is not simply economic; it is a political commitment by the government to its citizens. It indicates China's political will and its commitment to reducing emissions. […] This target is the first step on the road to a low-carbon economy, and is of greater political and economic significance.

Moreover, Hu stresses that

> the Chinese leadership faces two pressing questions: how to transform China's economy into a low-carbon economy; and how to participate in global governance, moving from national to regional and worldwide governance.[49]

This last goal is very important as it is the final step of the policies implemented from the beginning of the PRC: by taking the lead in the long march toward a global green economy, China has the great opportunity to restore itself as a world power.

Nevertheless, Hu Angang is not unaware of the difficulties that may arise on this road. In view of the international negotiations to be held in December 2009 in Copenhagen for the purpose of replacing the Kyoto Protocol, and considering the difficulties in finding an agreement in spite of the positive attitude of the new Obama administration, Hu suggests replacing the current and simplistic distinction between developed and developing countries with a more complex, and to my opinion fairer, classification based on the Human Development Index (HDI) that subdivides countries into four categories: high (HDI above 0.8), medium-high (HDI between 0.65 and 0.8), medium-low (HDI between 0.5 and 0.65) and low (HDI less than 0.5).[50] A second criterion will be used to determine the responsibilities of the countries for cutting the emission levels: their levels of pollution, both total and *per capita*. The final result would be the distinction between countries with binding or voluntary commitments.

By applying the first criterion, the high-HDI countries would make non-conditional emission cuts as specified by the UN. The medium-high countries (including China) would be conditional reducers. Their target would be defined according to their HDI gap compared to high-HDI countries. The medium-low and low-HDI countries would not be obliged to reduce emissions, but voluntary reduction should be encouraged. Hu calculated that the world's 20 largest polluters account for 75 percent of total emissions. It is therefore reasonable, by applying the second

criterion, that the biggest reductions would be required from the biggest polluters. Finally, it should be noted that countries could pass from one group to another (both for HDI and level of pollution) during the years, and thus may pass from the group with voluntary cuts to that with binding responsibilities to reduce emissions. According to this proposal, China should bind itself to international goals to slash greenhouse gas pollution: 'It is in China's own interest to accept greenhouse gas emission goals, not just in the international interest. […] China is a developing country, but is a special one, with the biggest population, high energy use and sooner or later, if not now, the highest total greenhouse gas emissions. So this is a common battlefront we must join.'[51] According to Hu, China will join the high-HDI group in 2010, when its HDI will reach 0.8, and then should therefore accept binding emissions cuts.[52] To those who may be sceptical about the political will of the Chinese government to accept this proposal, one should recall the scepticism that accompanied the negotiations between China, the US and the EU that led to China's accession to WTO in 2001, thanks to the determination of the Chinese negotiators. Moreover, Hu reminds us that 'like joining the WTO, this [strategy] should be used as international pressure to spur our own transformation'.[53]

This strategy should soften the Chinese government's attitudes during the negotiations, in spite of the impression given at the beginning of the talks.[54] It may be true that for the moment the Chinese government is not yet ready to make concessions according to the line defined by the Tsinghua professor. But in an interview given to a Reuters journalist who made this remark, Hu replied not without some pride and a keen sense of humour: 'I've always started out in the minority but ended up as the mainstream'.[55]

This cautious optimism is confirmed by two recent publications. The first publication is by the World Bank: in spite of considering that progress on the environmental objectives during the first two years of the 11th Five-Year Plan (i.e. between 2006 and 2008) has been mixed, in that especially insufficient progress in reducing energy intensity was noted, improvements were seen in reducing air and water pollution, treating industrial solid waste, increasing the efficiency of water use, and expanding forest coverage.[56] The second publication, by the McKinsey Company, estimates that 'China's current efforts and recently enacted policies could reduce the country's energy intensity by 17 percent during every five-year interval from 2005 to 2030'.[57] If Hu Angang's strategy be followed by the Chinese leadership, it is plausible that the objectives of the 11th Five-Year Plan will be achieved.

China's environmental strategy could not be conceived and implemented without an efficient public management. I will deal with the improvements in this domain in the next section.

### *1.4 The improvements in public management*

I will deal with this important aspect of the reform process in the last chapter, as I will place it within the larger framework of the opening up of the political system, and especially the decision-making process. In the context of this chapter

it is nevertheless important to mention the main innovations introduced since the beginning of reforms for improving the effectiveness of public management of the PRC. First of all, since the 1980s China has undergone a long series of reforms of the administrative structure of the Central Government. Whereas it is not possible to exclude that political considerations have been at the source of some of these restructurings, it is certain that most of the time the aim of these reforms has been to facilitate the transition from the planned economy, where state ministries and agencies in fact managed the entire economic domain, to the new Chinese economy where market mechanisms were being introduced progressively. This transition entailed the change in government functions reducing the direct management of economic sectors toward an increasing set of regulatory functions, among which the macro-economic ones were to acquire an increasing importance.

This process needed some (almost) permanent changes in the structure of the central administration. The last episode of this movement has been the creation of five super ministries whose role will be to better steer the policies in the most important domains crucial for the realization of a balanced and prosperous society. As mentioned in endnote 40, these new ministries are the Ministry of Information, Ministry of Human Resources and Social Security, Ministry of Environmental Protection, Ministry of Housing and Urban–rural Construction, and the Ministry of Transport. But restructuring the administration, as necessary as it is, is not enough for implementing the new public policies.

It is necessary to put in practice the attitudes, skills and knowledge necessary for this purpose. Although the fundamental options in public policy matters are the paramount responsibility of the political leaders, the design and implementation of public policies must be supported by a number of civil servants whom it has been necessary to train in the new domains of state activity. This has been done through different means, such as the training by the Party Schools at the central and local levels, the National School of Administration, as well as by the universities, some of which have been given the responsibility of setting up new Public Administration Masters Programmes. In addition, hundreds of civil servants have been trained within overseas programmes set up in cooperation with Western and Asian countries. Furthermore, the government has supported research realized within both government research institutes and in university research centres and think tanks. Moreover, China has taken advantage of the cooperation with international organizations such as the World Bank and the Asian Development Bank, as well as individual foreign countries to realize applied research in the domains useful for the Chinese decision-making process in fields such as the restructuring of social services, waste water treatment, financial sector management, etc.[58] Most of the time these research projects have been carried out by teams composed of Chinese and foreign experts. By organizing the acquisition of knowledge in this way, China has benefited from the experience of foreign governments and experts. This knowledge, used in conjunction with the knowledge developed by Chinese experts (who moreover have a better knowledge of the Chinese situation than the majority of foreign experts) has been very useful for improving the management capacity of the Chinese leadership. The case of the preparation of the new Chinese

health system, to be dealt with at the end of this chapter, is a good example of the openness of the Chinese decision-making process.

Last but not least, the considerable development of the Chinese legal system, even if the majority of experts consider that it should be further developed and completed, and the frequent references in public discourse to the necessity to abide by the rule of law, show an important commitment of the Chinese leadership to introduce more legal security within the functioning of the new Chinese economy.[59] This trend is further confirmed by the development of important domains of laws, such as the new Contract Law, that gives more security to the employees within the domain of employer–employee relations. This trend, confirmed by the increasing number of cases brought before the courts, suggests that the Chinese legal system is moving toward the attribution of rights to its citizens in domains where until recently interpersonal relations were the main way of establishing mutual obligations and of resolving conflicts.

## 2 Social security in China: one country, two systems[60]

### *Introduction*

In the second chapter I have described the huge and impressive changes that Chinese society has experienced since the reforms started at the end of the 1970s: not only the phenomenal increase of GDP and the substantial improvement of the living conditions of large sectors of the Chinese population, but also the less positive outcomes such as the increasing gap in terms of economic development, education and health between the coastal provinces and the inner and western Chinese provinces. Moreover, the introduction of market mechanisms put such an extraordinarily heavy pressure on Chinese state-owned enterprises (SOEs) that they were forced not only to lay off huge numbers of employees, but also to abandon the traditional safety net system they used to provide their employees under the planned economy of the Mao era. Finally, a vast migration movement started in the 1980s, fuelled by the increasing disparities between rural and urban regions, especially in terms of job opportunities. Not only did millions of redundant peasants moved to the urban areas in search of employment, but also people working in service sectors such as health care moved to cities where working conditions and salaries were becoming better than in the countryside. One of the most worrying consequences of these changes brought about by the reforms of the economy was that large sectors of the Chinese population were left without a decent social security system or without social security at all. And this constitutes a very serious threat to one of the major objectives of the Chinese leadership: social and political stability that is considered as a fundamental condition for assuring the continuity of economic development.

As we have seen in the previous chapter, economic development has been the driving force leading not only to the improvement of total and per capita GDP, but also to the source of the financial means needed for improving education and safety nets such as old age, unemployment and health insurances. Thanks to

this development, poverty has been considerably reduced since the beginning of reforms. Nevertheless, in recent years poverty reduction has been less responsive to economic development. Moreover, income has become more important as it determines access to health and education, since the government has embarked on a policy of marketization and monetarization of service delivery. Schools and health institutions have increasingly become dependant on user fees to cover their costs. Inequalities in standards of living have therefore become the consequence not only of inequalities in income distribution but also of inequalities in access to education and health. Incapacity to pay out-of-pocket for these services, which are essential for human capital improvement and for sustaining economic development, has become one of the determinants of new forms of poverty for the populations who cannot afford the cost of education and health.[61] The new strategy that 'puts people first' has recognized this situation and started to correct these phenomena and set up several measures to correct these inequalities. Analyzing the strategy followed by Chinese leadership to develop a new social security system is therefore important not only for understanding whether China is successfully implementing one of the public policies necessary for mastering the societal changes it is experiencing at the beginning of the twenty-first century, but also for understanding and evaluating the strategy used for mastering these challenges. This last perspective, applied to one of the most important public policies (the establishment of a new social security system) constitutes a useful transition to the last chapter where I propose a general framework for understanding China today.

The measures undertaken for correcting these inequalities are more generally aimed at reducing the causes of poverty and can be summarized as follows: training programmes to support the transfer of rural surplus labour to the fast developing urban areas; elimination of rural taxes by the end of 2006; subsidies for agriculture in the framework of the 11th Five-Year Plan; compulsory education and finance reform, introduced in March 2006, with the aim of promoting universal primary and junior secondary education by waiving of tuition and textbook fees for all students and by providing boarding subsidies to poor students, as well as the possibility of fixing a higher poverty threshold, announced by President Ju Jintao at the 2007 Party Congress. Regarding the specific needs of migrant workers, the World Bank recognizes that several initiatives have been launched by the Chinese government such as worker rights and protection, public services and living conditions, social security, employment services and skills development, but it regrets that 'not much systematic information is available on the actual progress of these new initiatives', and it suggests several strategies in order to improve the conditions of migrants and, more generally, for further reducing poverty in both rural and urban areas.[62]

In addition to the measures mentioned above, China has launched several policies in the domains of social insurances that we will examine in the following paragraphs. In view of the analysis of the uneven development of China presented in the second chapter, it is not surprising that the Chinese social security system is a dual one, and that social security presents considerable differences in a comparison between rural and urban areas. It is therefore necessary to analyze these two situations separately.

A number of reforms, based upon the different social and economic situations in rural and urban areas, have been introduced to change the traditional social security system practiced under the planned economy since the mid-1980s. This system that can be defined as a 'cradle-to-grave' welfare system was based upon the social role attributed to SOEs that became the sole and unique institutions responsible for the welfare of their employees, including lifelong employment, medical care, pensions and so on. However, this system became an overwhelming burden for SOEs which fell into financial difficulties and management ineffectiveness with the deepening of the reform of SOEs and the development of non-state-owned enterprises. Moreover, the introduction of market mechanisms, the one-child per family policy, and the increasing workforce mobility within the country, considerably weakened the effectiveness of the traditional social security system in urban areas.

Based upon the analysis of this situation, the reform of the social security system was put onto the agenda of the Central Government and several measures were taken. The general idea was to free the SOEs of their traditional role, and to set up a social security system compatible with the introduction of market mechanisms. This choice led the government to evaluate different models (including those experienced by Western countries) where enterprises are not the unique body responsible for the financing of social security, but share this responsibility with employees and the government, without excluding the possibility of introducing in China private insurances. It is in this framework that some reforms and pilot experiments were implemented in order to identify the social security system best adapted to the Chinese situation, and eventually capable of reducing (if not eliminating) the disparities between rural and urban areas.

Today, a basic framework of the social security system has been set up in China compatible to the market-oriented economy system. China's social security system includes social insurance, social welfare, the special care and placement system and social relief. As the core of the social security system, social insurances have five programmes: old-age insurance, unemployment insurance, medical insurance, work-related injury insurance, and maternity insurance. In the following paragraphs we will introduce the reform process and the current system and its performance, the main debates and challenging tasks that appeared during the course of its reform.

### *2.1 The structure of social security in urban areas*

The disparity of social security benefits between urban and rural areas is an important characteristic corresponding to the duality of social and economic structures of urban and rural areas in China. Compared to the social security system in rural areas of China, the social security system in the urban areas is more advanced and complete.

#### *2.1.1 Social insurance*

Social insurance is the core of the social security system, including five different programmes. This part will mainly introduce the evolution of social insurance

programmes, the current system and its performance, including some recent data on coverage, premium rate, asset balance and so on.

### OLD-AGE INSURANCE

The old-age insurance system in China was first established in early 1950s, and has gone through four stages. The first stage at the beginning of the PRC lasted until 1966. In 1951, the state promulgated the 'Regulations on Labour Insurance', including some programmes, such as disease, injury, birth, medical care, retirement and death treatment and unemployment (called 'job waiting reliefs'). Later, a series of policies and regulations was promulgated. At that time, the All China Federation of Trade Unions was the highest leading body for labour insurance schemes, and the Ministry of Labour was the highest supervisory institution. Part of the labour insurance fund was paid directly by enterprises, while another part was raised by the All China Federation of Trade Unions.

The second stage started at the beginning of Cultural Revolution (1966) and lasted until 1984. During this chaotic period, management organs were dissolved, and trade union organizations were compelled to suspend their activities. In order to guarantee the pension benefits to retirees, the Central Government decided in 1976 to discontinue the social pooling for retirement expenses, and all the expenses were incorporated into the enterprises' budget and considered as business costs.[63] This means that social insurance was turned into enterprise insurance. SOEs and collective-owned enterprises took full responsibilities for their employees' insurance, financed on a pay-as-you-go (PAYG) basis.

The third stage lasted from 1984 to the 14th National Congress of the Communist Party of China in 1992. Since the beginning of the reforms, some new types of enterprises were emerging, such as private companies, joint-invested companies, and foreign companies. One of the consequences of these changes was that the financing of pensions was much heavier for SOEs and collective-owned enterprises than for these new bodies. In 1984, a pilot experiment of social pooling was first initiated in Guangdong. Thereafter, it expanded to Sichuan, Jiangsu, and Liaoning, and by 1986, most of the provinces were implementing the social pooling system. Based on the experiences of these pilot experiments, the state Council promulgated in 1991 the 'Regulations on the Reform of Old-age Insurance for Enterprise Employees,' which constituted the basis for the setting up of the social pooling system.

The fourth stage lasted from 1992 to 1997, the main characteristic of which was the introduction of the social-pool-plus-personal-account system. The 'Decisions on Some Issues Concerning the Establishment of a Socialist Market Economic System' adopted at the Third Plenary Session of the 14th Party Central Committee proposed for the first time to introduce a personal account as a means to protect employees against the future ageing crisis. In 1995, the State Council promulgated the 'Regulations on Deepening the Reform of Basic Old-age Insurance for Enterprise Employees,' which means that China established a social-pool-plus-personal-account scheme. In 1997 the Chinese government unified the basic old-age

insurance system for enterprise employees in urban areas across the country. The new system is organized along the following lines. First, employers pay 20 percent of total wages of their employees; employees pay 4 percent of their personal wages, and this percentage is raised by 1 percent each year until it reaches 8 percent of personal wages; 11 percent of an employee's wage goes into his personal account under the fully funded model (employees pay 4–8 percent; employers pay 7–3 percent) and the rest is put into the social pooling account which pays for the current pension expenditure on a PAYG basis. Second, male employees aged 60, female cadres aged 55 and female workers aged 50 who have paid their share of the premiums for 15 years or more are eligible for pension benefits. Third, the basic old-age pension consists of two parts: basic pension and pension from personal account. The monthly sum of the basic pension is tantamount to about 20 percent of the average wage of local employees. The monthly pension from the personal account is 1/120 of the total accumulated balance of the personal account. The state adjusts the level of the basic old-age pension with reference to the price index of living expenses for urban residents and employees' pay increases.

However, the fully funded scheme based on personal accounts failed to work because the government did not transfer assets to match the historical pension debt for the people covered by the pension plan before personal accounts were established. In order to make sure that basic pensions are paid on time and in full, the government decided to transfer some assets from the personal account funds, which led to the 'Empty Personal Account' that reached 190 billion yuan by the end of 2000.[64] Since 2001, the Government has started the pilot experiment for compensating the 'Empty Personal Account' in Liaoning Province, and expanded this experiment (which is called Northeast Pilot) to Jilin and Heilongjiang provinces in 2004.[65]

On the basis of the results of this pilot, the State Council promulgated the 'Decisions on Perfecting the Basic Old-age Insurance for Enterprise Employees' on 3 December 2005. This decision includes several measures:

1 decreasing the proportion of the personal account to 8 percent, which is now entirely paid by employees;
2 changing the way the basic pension is calculated and paid, whereby the amount of the basic pension is more closely linked to the number of years employees have paid the insurance premium, as well as to the wage level before retirement;
3 gradually capitalizing personal accounts and expanding the Northeast Pilot to Tianjin, Shanxi, Shanghai, Shandong, Henan, Hubei, Hunan, Xinjiang;
4 probing ways of preserving and increasing the value of pension funds.

As a consequence of the implementation of this decision, the coverage was expanding. By the end of 2007, the number of people participating in the basic old-age insurance scheme across China reached 201.37 million (Table 3.1), 182.35 million of whom were employees. The revenues of the old-age insurance grew from 631 billion in 2006 to 783.4, an increase of 24.2 percent, 649.4 billion yuan of which was raised by premiums. State budgets at all levels contributed 115.7 billion yuan to the basic old-age insurance funds. In 2007, the total of retirees who

had joined the revolutionary ranks before October 1949 and other retirees reached 49.54 million and the total payment was 596.5 billion yuan, an increase of 21.8 percent. The accumulated balance within the old-age insurance reached 739.1 billion yuan by the end of 2007.

Besides the reform and improvement of the basic old-age insurance, the Chinese government has made great efforts to build up a multi-pillar old-age insurance system. In addition to participating in the compulsory basic old-age insurance, enterprises with sufficient financial capacity are encouraged to set up enterprise annuities for their employees. In 2004, the Ministry of Labour and Social Security (MoLSS) issued the 'Interim Measures for the Enterprise Annuity' and the 'Interim Measures for the Management of the Enterprise Annuity Fund,' which guaranteed the development of the enterprise annuities. In August, 2005, 37 institutions approved by the MoLSS were permitted to manage the enterprise annuity funds. At the end of 2005, several central enterprises with suitable conditions sent their annuity plans to MoLSS. On 7 February 2006, the Bank of China, the China Everbright Group and the PICC Property and Casualty Company Limited obtained permission from MoLSS to set up annuities for their employees, which were the first batch to be approved. By the end of 2007, 320,000 enterprises had set up annuities schemes, the number of employees covered by annuities reached 9.29 million and the size of annuity assets amounted to 151.9 billion yuan. In theory, the development space of enterprise annuities in China is very impressive. Professor Yang Yansui of Tsinghua University predicted that the total of China's annuities would reach 1,000 billion yuan by 2010[66] and according to the prediction of the World Bank it would be 15 trillion yuan by 2030.[67] Enterprise annuities will play an increasingly important role in the future within China's multi-pillar old-age insurance system. In addition, the state also encourages personal savings for old age.

*Table 3.1* Beneficiaries of social insurances (million)

| *Year* | *Old-age insurance* | *Medical insurance* | *Work-related injury insurance* | *Maternity insurance* | *Unemployment insurance* |
|---|---|---|---|---|---|
| 2001 | 141.83 | 76.3 | 43.45 | 34.55 | 103.55 |
| 2002 | 147.36 | 94 | 44.06 | 34.88 | 101.82 |
| 2003 | 155.06 | 109.02 | 45.75 | 36.55 | 103.73 |
| 2004 | 163.53 | 124.04 | 68.45 | 43.84 | 105.84 |
| 2005 | 174.87 | 137.83 | 84.78 | 54.08 | 106.48 |
| 2006 | 187.66 | 157.32 | 102.68 | 64.59 | 111.87 |
| 2007 | 201.37 | 180.20 | 121.73 | 77.75 | 116.45 |

Data source: Ministry of Labour and Social Security Statistical Communiqué for Social Security (2001–2007).

HEALTH INSURANCE

Like the old-age pension, the health security system has been established since the early 1950s, with socialized medicine for public sectors and labour insurance system for the employees of SOEs and collective-owned enterprises.[68] It is generally recognized that the old system has been helpful for promoting people's health in accordance with the planned economy. But because of the weakness of control mechanisms on the demand of medical services as well as on the total outlay, the medical expenditure rose dramatically. This seems to be the generally accepted explanation by Chinese experts. And this is also the dominant opinion for explaining the cost of health in Western countries, where some experts forecast that in the near future (and for some it is already the case today) access to medical care will be regulated within 'a two-speed system:' one regulated by the state and accessible to everybody, but with an incomplete coverage; the other regulated by the market, covering practically every type of care (including the most expensive) but limited to the financial capacity of the people, and therefore excluding an increasing large number of people. Nevertheless, another cause of the difficulties in balancing the accounts of medical care could very well be insufficient financing.[69] As has been witnessed in Western countries, the increase of demand, and therefore of expenses for medical care, is closely linked to the improvement of per capita income which, in conjunction with the availability of increasingly performing but expensive medical means (both in terms of personnel and technical devices) explains the increase in expenses. In these circumstances, if the financing of medical care is not assured (either by the state alone or in cooperation with other bodies such as employees and employers) the appearance of a deficit is inevitable. Having said that, it is evident from Western experience that the interpretation of the causes of this financial gap is generally based upon ideological considerations, opposing individual to collective responsibility.

As the reform of the economic system and the development of Chinese society were under way during the 1980s, the Chinese government began to undertake the reform path of medical insurance. On the basis of previous trials, the Chinese government promulgated the 'Decision on Establishing a Basic Medical Insurance System for Urban Employees' in 1998, promoting a national reform of the basic medical insurance system for urban employees. The main characteristic of this reform is to adopt the social-pool-and-personal-account system. Many specific measures have been taken to improve China's medical insurance. First, setting up two foundations — social pool and personal accounts with different sources of funding: the employer pays 6 percent of total wages (of which 30 percent goes to employee's personal account and 70 goes to the social pool); the employee pays 2 percent of his or her wage to the personal account. Second, formulating different uses of the foundations: outpatient treatment expenses (smaller amount) are covered by personal account; 80–90 percent of bigger hospitalization expenses is covered by social pool and the remaining 10–20 percent should be paid by the individual with cash or funds from the personal account. The deduction for hospitalization is equal to about 10 percent of the average annual wage of local

employees. Third, combining medical insurance reform with medical service and the public health system, and the pharmaceuticals production and circulation system. An insured person can only go to the assigned hospitals and pharmacies. The law also sets up name lists of medicines, hospital facilities and medical equipment covered by the insurance. These measures are taken to enhance the efficient use of the basic medical insurance fund.

For a long time, medical insurance just covered employed persons and urban residents without jobs were excluded from this system, such as children, primary and middle school students, university students and other jobless residents. In order to realize the goal of a medical security system covering all the people, the State Council decided to pilot a basic medical insurance scheme for urban residents under the provisions of the 'Directive Ideas of State Council on Piloting a Basic Medical Insurance for Urban Residents' promulgated in 2007. It focuses on pooling for serious diseases funded by governments and individuals. The yearly subsidy from the government is not less than 40 yuan per capita, financed by the government's budget; for insured residents in the central and western regions, the Central Government's subsidy is equal to 20 yuan per capita. Moreover, the government provides some subsidies for covering the premium paid by poor families.

By the end of 2007, the number of people participating in the basic medical insurance system across China reached 223.11 million with an increase of 65.79 million compared to 2006, of which 180.2 million were covered by the basic medical insurance for employees (representing an increase of 22.88 million) and 42.91 million were covered by the medical insurance for urban residents. The revenue of the basic medical insurance in 2007 was 225.7 billion yuan, with an increase of 29.3 percent compared to 2006, and the expenses were 156.3 billion yuan (with an increase of 22.3 percent). By the end of 2007, the accumulated balance within the basic medical insurance reached 247.7 billion yuan.[70]

### UNEMPLOYMENT INSURANCE

In the planned economy everybody had a job, so the state did not have to set up any system to cope with unemployment. The first regulation dealing with unemployment in China appeared in 1986. At the beginning, the Chinese government was reluctant to recognize that there existed unemployment in a socialist country and created the terminology of the lay-off ('*xiagang*' in Chinese) system, which was presented as being different from unemployment. Under this system, although *xiagang* workers had in fact lost their jobs, they still kept a legal link with their enterprises. As the reform of SOEs was progressing at a very rapid pace, a huge number of workers were laid off, many of whom became permanently jobless due to poor education, lack of professional skills, flexibility and adaptability to the new labour market conditions. In 1998, in view of the increased pressure on SOEs for repositioning their redundant personnel, and the inadequate coverage of the unemployment insurance, the Chinese government created the basic livelihood guarantee system for people laid off by SOEs. Under this policy, the Re-employment Service Centres were set up in 1998, with three main functions.

The first function was the distribution of living allowances, payments for pension insurance and medical insurance, offering training and providing re-employment service and information for the *xiagang* workers. The second function was raising funds by three channels called '3/3 pooling' model. Under this model, financing was assured by three sources: local governments' financial budget, enterprises, and a social pool programme (mainly from unemployment insurance funds). The third function was the establishment of the 'three guarantees' system; that is, the basic livelihood guarantee for *xiagang* workers, the unemployment insurance guarantee, and the minimum living standard guarantee for urban residents.

In 1999, the Chinese government issued the 'Regulations on Unemployment Insurance,' which effectively standardized and improved the unemployment insurance system, including mainly the following measures and conditions. First, premium payment: employers pay two percent of their total wages and individuals pay one percent of their personal wages. Second, qualifying conditions: having paid unemployment insurance premiums for at least one year; not having terminated their employment voluntarily; having registered as unemployed and being willing to find re-employment. Third, level of unemployment insurance allowance: the governments of provinces, autonomous regions, and municipalities directly under the Central Government determine the level of unemployment insurance allowance in their own localities, which shall be lower than the minimum wage in their localities but higher than the minimum living allowance for urban residents. Fourth, provisions regarding the time limit: unemployed persons whose former employers as well as themselves have paid without interruption the unemployment insurance premiums for more than one year but less than 5 years are eligible for benefits up to 12 months; if they have paid the premiums for more than 5 years but less than 10 years, unemployed persons are eligible for benefits up to 18 months; if they have paid the premiums for more than 10 years, unemployed persons are eligible for benefits up to 24 months. Fifth, other unemployment insurance benefits: if an unemployed person becomes ill while enjoying the unemployment insurance allowance, he or she is entitled to receive medical subsidies. If the unemployed person dies during this period, his or her family can receive funeral subsidies. In addition, an unemployed person may receive vocational training and subsidies for job agency services when receiving the unemployment insurance allowance.

With the steady improvement of the unemployment insurance system and the increase of the accumulated assets, the basic livelihood guarantee system for *xiagang* workers has been integrated within the unemployment insurance programme since 2001.[71] This task was completed by the end of 2005, which meant that all the re-employment service centres were shut down and the concept of '*xiagang*' was cancelled.

Today, the Central Government pays more attention to re-employment and regards it as the foundation of people's livelihood. In addition to the basic livelihood guarantee, the government takes some measures to steer unemployment insurance in the direction of promoting re-employment. In January 2006, the Ministry of Labour and Social Security issued the 'Decision on Enlarging the Expenditure Scope of Unemployment Insurance Fund' and selected seven

provinces or municipalities for a pilot experiment, including Beijing, Shanghai, Shandong, Guangdong, Fujian, Zhejiang, and Jiangsu, where the funds of unemployment insurance could be used to pay for job skill training, social insurance subsidies, and the interest of a small loan.

By the end of 2007, the number of people participating in unemployment insurance nationwide reached 116.45 million and increased by 5.58 million compared to 2006 (Table 3.1). It provided unemployment insurance benefits of varying time limits to 2.86 million throughout the year. The revenue of unemployment insurance in 2007 amounted to 47.2 billion yuan, an increase of 17.5 percent compared to the previous year; the expenditure was 21.8 billion yuan, representing an increase of 9 percent. By the end of 2007, the accumulated balance reached 97.9 billion yuan.

### WORK-RELATED INJURY INSURANCE

In February 1951, the State Council enacted the 'Regulations on Labour Insurance' stipulating benefits for work-related injuries. Hereafter, China gradually adjusted the range of the benefit level. However, generally speaking, the former system had some shortcomings, namely a comparatively lower benefit level, and an imperfect standard system for assessment of the degree of a work-related injury.

From 1988, the Ministry of Labour embarked on trials and obtained remarkable improvements including expanding the coverage, adjusting the benefit level, establishing the social pool system and determining the differential premium rates according to the degree of risk of work-related injuries, and so on. In April 2003, on the basis of previous trials, the Chinese government promulgated the 'Regulations on Insurance for Work-related Injuries,' improving China's insurance system for work-related injuries, which mainly included the following measures: defining the insurance benefits; adopting the principle of 'no-fault compensation;' implementing a system for assessing labour ability. Moreover, these regulations define the financial system: employers pay insurance premiums, whereas employees do not pay premiums; it adopts a social pool fund programme with a balance of revenue, expenditure, and collection determined by expenditure; the government determines the differential premium rates according to the degree of risk of work-related injuries involved in different sectors, and sets several premium rates within each sector according to the insurance payments and occurrence rates of such injuries.

It should be stressed that it is generally considered that the prevention of occupational diseases and injuries is much more cost-effective than providing treatment and rehabilitation after injuries have occurred. Therefore, further investments should be made to improve the workplace conditions in order to reduce the accident rates. For this reason, the Chinese government puts forward the principle of 'safety and prevention first' and urges enterprises and employees to abide by the rules and regulations concerning work safety and hygiene, and to strictly implement the rules and standards, so as to reduce occupational hazards.

By the end of 2007, the number of people participating in the work-related injury insurance nationwide reached 121.73 million and increased by 19.05 million

compared to 2006 (Table 3.1). It provided insurance benefits to 0.96 million insured people throughout the year. The revenue in 2007 was 16.6 billion yuan, with an increase of 35.9 percent compared to the previous year; the expenditure was 8.8 billion yuan, with an increase of 28.4 percent. By the end of 2007, the total accumulated balance was 26.2 billion yuan, and the reserves fund reached 3.3 billion.

#### MATERNITY INSURANCE

Maternity insurance was set up in 1951 according to the 'Regulations on Labour Insurance'. Since then, many specific measures have been taken to improve the system corresponding to the planned economy. Yet, since the early 1980s, the reforms of the economic system have resulted in a series of changes that also needed an adjustment to the old maternity care system in order to equalize the burdens among different types of enterprises, in particular because of the relatively heavier burdens of enterprises in some light industries and service sectors where woman labourers were the mainstay. In 1988, the state introduced a reform of the maternity insurance system in some areas adopting the social pool system. Based upon local trials, in December 1994 the Ministry of Labour issued the 'Interim Decision on Maternity Insurance for the Enterprise Employees', adopting a social pool system with a balance of revenue and expenditure. The premiums are paid by the employers participating in the maternity insurance scheme, and should not be more than 1 percent of the total wages. Individual employees do not pay the premiums. Insured women may enjoy a childbirth allowance for 90 days according to law.

By the end of 2007, there were 77.75 million employees covered by maternity insurance. In this year, the revenues and expenditure were 8.4 billion and 5.6 billion yuan respectively and 1.13 million employees received maternity insurance benefits. The accumulated balance reached 12.7 billion yuan.

### *2.1.2 Social relief*

Since the foundation of the PRC, the Chinese government has gradually adjusted the social relief policy and has been improving the relief standard adapting it to the evolution of social and economic development. Up to now, a relatively sound framework of social relief has been set up in China, including the following programmes: the minimum standard of living, the relief to natural disaster victims and to urban vagrants and beggars. Some local governments began to explore the relief system for housing and medicare,[72] of which the minimum standard of living for urban residents is the most important one.

In 1999, the Chinese government promulgated the 'Regulations on Guaranteeing Urban Residents' Minimum Standard of Living'. It stipulates that urban residents with non-agricultural permanent residence permits whose family's per capita income is lower than the local urban residents' minimum standard of living can receive basic subsistence assistance from the local government; those with neither source of income nor working capability, nor legal guardian, supporter or fosterer,

can receive in full the minimum living allowance according to the minimum living standard of local urban residents.

The minimum living standard is decided primarily on the basis of urban residents' average income and consumption level per capita, the price level of the previous year, the consumption price index, the local cost which is necessary for maintaining the basic livelihood, other related social security standards, the materials for the basic needs of food, clothing and housing, and the expenditure on under-age children's compulsory education. Meanwhile, considerations must also be given to the level of local socio-economic development, the number of people eligible for receiving the minimum living allowance and the local government's fiscal capacity. Table 3.2 shows the minimum living standard lines of different cities by the end of September 2006.

The minimum guarantee funds are included in the fiscal budgets of local governments and put under 'the designated financial account for social relief funds' for management. Central Government grants certain subsidies to some local governments whose fiscal capacities are weak. By the end of 2007, there were 22.709 million urban residents nationwide drawing the minimum living allowance, which was an average of 102 yuan per person per month. A total of 27.48 billion yuan for the minimum living allowance was allocated from government budgets in 2007, of which 16 billion was from the central budget.[73]

*Table 3.2* The minimum living standard line (December 2005)

| *City* | *Standard line* | *City* | *Standard line* | *City* | *Standard line* |
|---|---|---|---|---|---|
| Beijing | 300 | Guangzhou | 330 | Haikou | 221 |
| Tianjin | 265 | Nanning | 210 | Chengdu | 195 |
| Fuzhou | 210–230 | Wulumuqi | 161 | Chongqing | 210 |
| Nanchang | 190 | Dalian | 240 | Kunming | 210 |
| Jinan | 230 | Qingdao | 260 | Guiyang | 170 |
| Zhengzhou | 200 | Ningbo | 300 | Lasa | 200 |
| Wuhan | 220 | Shenzhen | 344 | Xian | 200 |
| Changsha | 200 | Xiamen | 265-315 | Lanzhou | 190 |
| Shijiazhuang | 220 | Huhehaote | 190 | Xining | 165 |
| Taiyuan | 183 | Shenyang | 220 | Yinchuan | 180 |
| Changchun | 169 | Shanghai | 300 | Hangzhou | 280-320 |
| Haerbin | 200 | Nanjing | 200-260 | Hefei | 230 |

Source: Ministry of Civil Affairs, http://www.china.com.cn/city/txt/2006-11/25/content_7406758.htm

Moreover, medical relief was carried out actively in urban areas. In 2007, 4.066 million persons (or times) received medical relief. The total expense for medical relief in urban areas was 1.25 billion yuan, an increase of 145.1 percent compared to the previous year.

### SPECIAL CARE AND PLACEMENT SYSTEM

The special care and placement system is a programme by which the Chinese government provides materials, and expresses compassion, mainly for servicemen and their families. To protect the rights and interests of people eligible for special care, the Chinese government has promulgated the 'Regulations on Commending Revolutionary Martyrs', the 'Regulations on Special Care and Preferential Treatment for Servicemen' and similar laws and regulations, which stipulate the different grades and standards for special care and preferential treatment according to the eligible people's capacities and contributions, and with reference to the level of economic and social development. In 2006, there were 4.964 million people eligible for state compensation and subsidy, and government budgets at all levels for such compensation and subsidy totalled 15.7 billion yuan.

The 'Military Service Law of the People's Republic of China'' the 'Regulations on Placement for Demobilized Conscripts' and similar laws and regulations provide for the placement and resettlement of demobilized servicemen. The government provides employment for demobilized soldiers in urban areas, and grants a lump-sum subsidy as well as preferential policy support for those who seek their own employment. Demobilized conscripts from rural areas have their difficulties in production, livelihood and medicare settled according to their different situations. In the year 2006, 293,000 demobilized servicemen were placed and resettled by local governments and 28,000 retired military officers were taken care of.

### SOCIAL WELFARE

The Chinese government has paid more attention to improving the social welfare system besides social insurance, social relief and special care and placement since the 1950s. At the time of the planned economy, the social welfare programmes were financed by the enterprises for their employees. With the market-oriented reform and opening-up policy, the Chinese government actively promoted the improvement of social welfare, raising funds through various channels. At present, China has set up a series of social welfare programmes providing social welfare benefits for the elderly, orphans and the disabled, which play an important role in enhancing the people's living level.[74]

According to the 'Law of the People's Republic of China on the Protection of Elderly People's Rights and Interests', the state and society have adopted measures to improve the conditions for such people's livelihood and health in order to allow them to benefit from the achievements of social development. In recent years, thanks to the promotion of the socialization of social welfare policies, a social service system for elderly people has gradually taken shape, with state- and

collective-run social welfare organizations for elderly people as the backbone — those sponsored by various social sectors as a new growing sector, community welfare services for elderly people as support, and services for elderly people living at home as the basis. Today, there are 51,000 social welfare organizations of various kinds for elderly people, with 1.05 million beds.

According to relevant laws and regulations, such as the 'Law of the People's Republic of China on the Protection of Minors' and the 'Education Law of the People's Republic of China', the state provides comprehensive welfare benefits for children, including education and planned immunization, and takes special care to ensure the livelihood, recovery and education of children with special difficulties, such as disabled children, orphans and abandoned babies, by providing welfare projects, facilities and services. Today, China has 178 special welfare institutions for children funded by the state, with 25,000 beds accommodating a total of 22,000 children and eight SOS Children Villages accommodating about 700 children.

In 1990, the state promulgated the 'Law of the People's Republic of China on the Protection of Disabled People', which provided legal guarantees for disabled people's rehabilitation, education, employment, cultural life, and social welfare. The government takes some measures to help disabled people, such as running welfare enterprises, supporting the self-employment of disabled people, and temporary aid.

### *2.2 The structure of social security in rural areas*

As we have already mentioned, the social security system in rural areas of China lags far behind the urban system. The Chinese government is taking some measures to promote a social security system for persons living in rural areas — that represents about 55 percent of China's population — especially by establishing a new rural cooperative medical system and extending the coverage of the minimum living standard system to the rural areas.

#### *2.2.1 Old-age insurance system*

For a long time, family security and solidarity constituted the main method of facing the risks of ageing (this being one of the reasons for the traditional preference for boys) and the income from agricultural activities was the main economic source of financing the expenses of old persons. With the changing of social structures, more and more redundant peasants started migrating to the cities and the income from farming was declining. Consequently the reliability of family security and solidarity decreased. In the 1990s, China began to experiment with a socialized old-age insurance system in some rural areas in accordance with the actual level of local socio-economic development. In light of the principle that 'the premiums are paid mainly by individuals themselves, supplemented by collectively pooled subsidies and supported by government policies', an old-age insurance system with the accumulation of funds taking the form of personal accounts was established. However, as the participation in the scheme was not compulsory, this resulted, by

the end of 2007, in selective coverage in favour of the better-off rural households, and in a very low coverage ratio of 16.4 percent, corresponding to 51.71 million people. In 2007 there were 37 million peasants receiving old-age pension benefits, with a total expense of four billion yuan.

### *2.2.2 The new rural cooperative medical system*

China's rural cooperative medical system, initiated in the 1950s, played an important role in promoting health security, which provided peasants with a good level of basic medical and health care service by the so-called 'Barefoot Doctors'. In the 1970s, it covered over 90 percent of peasants across the country. However, with the introduction of the family-contract responsibility system in rural areas in the 1980s, the collective economy was disaggregated and the economic foundation of the rural cooperative medical system disintegrated. Therefore, the rural cooperative medical system began to decline with a sharply decreased coverage of only 5 percent.

In order to guarantee the peasants' basic medical needs, to alleviate their medical burdens and to address the problem of poverty caused by illness, or prevent them from becoming poor again because of illness, in 2002 the Chinese government began setting up a new rural cooperative medical service system based mainly upon a 'financial-pool-against-serious-disease scheme', which was organized, led and supported by the government. It was joined by peasants on a voluntary basis with funds coming from the government, collective organizations and individuals. The subsidy level of the government has increased from no less than 20 yuan in 2003 to 80 yuan in 2008, per person per year. Since 2008, the Central Government has subsidized 40 yuan per capita per year for participating peasants in the central and western regions, and the local governments should increase their subsidy level correspondingly. Moreover, the individual contribution has also been increased from 10 yuan per year to 20 yuan. By the end of 2007, 2,448 counties had carried out this system, covering 730 million rural residents, corresponding to a participation rate of 85.7 percent. In 2007, 260 million participants (or times) received compensation from this system, equal to a total of 2.2 billion yuan.[75] It is stated that by the year of 2010, this system will cover all the peasants throughout China.

### *2.2.3 Social relief*

The 'five guarantees' system was initiated in China in the 1950s. In 1994, the State Council issued the 'Regulations Concerning the Work of Providing the "Five Guarantees" in Rural Areas'. It stipulates that elderly people, disabled people and minors meeting the following conditions in rural areas can enjoy the Five Guarantees of food, clothing, housing, medicare and burial expenses: those who have no legal guardians to provide for them, or whose legal guardians are unable to provide for them; those who have no work abilities; and those who have no sources of income. To take care of elderly people in the Five Guarantees category who cannot look after themselves alone, homes for the aged have been built, and have gradually become a major form of providing the Five Guarantees for the

elderly. By the end of 2006, there were 4.845 million elderly people covered by the Five Guarantees.

In 1999, the state promulgated the 'Regulations on Guaranteeing Urban Residents' Minimum Standard of Living', which only covered urban residents excluding persons with agricultural residence permits. In order to guarantee the basic living standard for the latter, the Chinese government encourages districts with adequate fiscal capacity to establish the minimum standard of living for rural residents. Zhejiang Province was the first one to establish a pilot experiment of this system in rural areas. By the end of 2006, this system had been set up in 2,133 counties nationwide and there were 15.091 million rural residents receiving the minimum living allowance. In 2007, it expanded to all the counties of China, and 34.519 million people drew the benefits, corresponding to an increase of 19.43 million.

Moreover, the state has set up medical relief for the poor peasants. In 2007, 6.034 million peasants (or times) received medical relief, and 23.055 million peasants (or times) were subsidized by the state to participate in the new rural cooperative medical system. The total expense for medical relief in rural areas amounted to 2.35 billion yuan, an increase of 146 percent compared to the previous year.

In the framework of economic and social development, the Chinese government will put into operation the promotion of the social relief system in rural areas. The aim is to build up an integrated system including a minimum standard of living, Five Guarantees, relief to the poor peasants, temporary relief and medical relief. On 23 November 2006, the vice premier, Liangyu Hui, promised that China would basically set up the social relief system covering the rural and urban areas by 2010.

### *2.3 The organization of social security in China*

Having described the impressive efforts undertaken by China to improve the social security system in both urban and rural areas, it is interesting to examine the organization that has been necessary to set up for the management of the new social security system, before we examine the difficulties that have been necessary to overcome, as well as those that still remain on the agenda of the Chinese government. The system is managed through a complex organization structured both horizontally (at the central level) and vertically (involving all levels of government).

Horizontally, at the central level six ministries or governmental institutions are involved in the domain of social security: Ministries of Human Resources and Social Security, Civil Affairs, Health, and Finance, as well as the National Audit Office, and the National Development and Reform Commission (NDRC).

The Ministry of Human Resources and Social Security was founded in 2008 within the general governmental project of rationalizing the functioning of the Central Government and administration by merging the existing ministries and agencies that had in common some governmental functions and objectives and/or some working methodologies. This new Ministry incorporates the functions of the former Ministry of Labour and Social Security and the Ministry of Personnel. This

adjustment was very valuable for the formation of a unified labour market, and a unified management of labour mobility in different industrial sectors. Moreover, it was helpful in reducing the gaps between social security benefits for employees with different social statuses.

The former Ministry of Labour and Social Security (MoLSS) was the main body dealing with social security affairs at the national level. It was responsible for planning and restructuring social security in SOEs in urban areas, which covered five types of insurance (pension, health, unemployment, work accidents, and maternity). Moreover, as part of its work, MoLSS was in charge of social security planning in rural areas. The former Ministry of Personnel was in charge of the welfare system of the state employees working in the government and Party organizations, cultural educational and scientific institutions. It must be noted that Chinese government employees are still enjoying certain privileges in social welfare.

The Ministry of Civil Affairs is in charge of distributing the minimum subsistence allowance for the urban and rural residents, the allowance for rescuing people from natural disasters in rural areas, the Special Care and Placement System, and some social welfare programmes. The Ministry of Health (MoH) is in charge of the new rural cooperative medical service system, including policy making, performance and evaluation. Also it is responsible for construction and resource allocation to the hospitals, including the improvement of community hospitals, which is the key task of medical insurance reform. The Ministry of Finance (MoF) is responsible for providing financial support (by making fiscal capital injections and making foreign loans on behalf of the state) for the establishment of the new system of social security when necessary. Moreover, MoF is entitled to supervise the performance of the social security system from the financial perspective in order to guarantee the good management of the funds. The National Audit Office (NAO) is responsible for the supervision of the social security fund, including the raising, expenses and management of funds. The NDRC is very much involved in the policy-making process of any social security system from the perspective of macroeconomic analysis, and therefore also in the social security domain.

Vertically, all levels of government are involved in social security work from central to provincial to municipal and county level. And at each level of government an implementation institution called the Social Insurance Administration Bureau (or Centre) is established in charge of the specific operation of the social insurance system. The grass-root civil affairs authorities, sub-district offices and community neighbourhood committees undertake specific enforcement tasks of social welfare and social relief.

### *2.4 The debates on social security reform in China: a literature review on issues in public pension system reform*

Many scholars have been involved in the process of the reforms of the Chinese social security system, and have put forward many suggestions. They agreed on some issues such as the socialization of social security and raising funds by

multiple channels. However, for some other key aspects, they had different opinions that it is interesting to briefly present here. I can anticipate that this example of the involvement of academics in a policy-making process will be useful for part of the next chapter when I will discuss the opening up of the political system, and more particularly its decision-making process.

### *2.4.1 The transition from the PAYG system to the funded system or NDC system*

Between the 1980s and the1990s, the transition from the PAYG pension plan to the funding scheme or NDC (nominal defined contribution) system occurred in many countries all over the world, and China has also been involved in this type of reform. In 1993, the Central Government decided to adopt the personal account for the first pillar of the pension system, which is a mix of the PAYG and funding schemes. However, the preparation of the theoretical basis was insufficient. Since the early 1990s, some Chinese economists, such as Wu Jinglian, Zhou Xiaochuan and Wang Lin, have suggested transferring part of the state-owned assets to a fully funded public pension plan, with the aim of compensating the implicit pension debt.[76] Thereafter, funding schemes have been closely studied and monitored by Chinese economists. In 1998, Li Shaoguang, with his analysis of the redistribution effect of social security and the relationship between social security and economic growth, suggested that the key issue of the pension reform in China was how to mix the PAYG with the funding scheme. However, the funding scheme based on personal accounts failed to work because the government did not distribute assets to match the historical pension debt for the retirees covered by the plan. Since 2001, the government has started the pilot experiment for compensating the 'Empty Personal Account' in Liaoning Province, and the pilot has expanded to 11 provinces up till now.

Scholars have expressed different opinions about the transition that can be regrouped into three schools: the funded scheme, PAYG system, and NDC system. The first school adhering to the fully funded scheme argued that the PAYG system could not deal with the financial crisis caused by population ageing, while the funded scheme could well deal with it. So the pension reform of China should save sufficient funds in the personal account. Wang Yan, Xu Dianqing *et al*. argued that the ongoing pension system should be changed, otherwise the financial crisis would bring great pressure with the ageing of the population.[77] China should do something to pay the transition cost and to fully compensate the personal account, in order to make the pension system sustainable. Also ZhaoYaohui and Xu Jianguo maintained that the funded scheme has a better incentive function.[78]

The second school does not believe that population-ageing should necessarily result in the reform of social security from a PAYG system to a funded one. Feng Jin tried to prove that PAYG was the optimal choice in the long run.[79] He Zhangyong and Yuan Zhigang argued that because the Chinese economy had been in a state of dynamic inefficiency, it was not yet the right time for changing the system and PAYG was still more suitable.[80] Zhu Qing did not think that China would

meet the 'Aaron Condition' in the long run, and the Chinese total dependency ratio was not very high although the population ageing was serious.[81]

With the rise of the NDC system in Northern European countries, some Chinese scholars proposed that this system was the optimal choice for China to solve the problem of the transition cost. Zheng Bingwen analyzed the origin of NDC in Northern Europe and thought that China should benefit from adopting NDC.[82] Wang Xinmei and Li Jiange made the same suggestions.[83]

### *2.4.2 The debate on social security: tax or fee*

The debate on social security about the choice between tax and fee began in the 1990s. The scholars in favour of the social security tax argued as follows:

1. based on the mandatory character of social security tax, it could solve the problem of avoiding contributions;
2. social security tax could diminish the 'free-rider' phenomenon;
3. many countries in the world levied tax as the source of social security;
4. with the development of the Chinese economy and the improvement of living conditions, China had met the conditions for levying tax. Meanwhile the improvement of social security laws created better conditions for levying tax. Hu Angang, one of the most prominent representatives of the group of scholars adhering to this viewpoint, proposed that China should levy social security tax and standardize the tax rates, the levying system, the management system, etc.[84] Kang Ja and associates argued that social security tax is helpful for realizing fair taxation and the establishment of the social security budget.[85]

The scholars opposed to levying a social security tax argue as follows:

1. if the laws were perfect, raising social security contributions by fee would be as efficient as tax;
2. with the same source as individual income tax, levying social security tax would lead to double taxation;
3. in practice, only a few developed market economy countries, such as the US, Canada, the UK, and Ireland, levy social security tax;
4. China has not met the conditions to levy tax because the allocation of intergovernmental social security responsibility and rights is not clear, and the social security laws have not yet been completely established. Li Shaoguang and Zhang Gongcheng were the most representative scholars adhering to this viewpoint from different perspectives. Li Shaoguang focused on the theoretical analysis of the tax incidence, redistribution and growth effect, while Zheng paid much attention to practical situations.[86]

### *2.4.3 The debate about the social security management system*

In 2003, the 3rd Plenary Session of the 16th Congress of CPC declared that the aim of social security management was to build up provincial pooling of social insurance contributions step by step and eventually realize nationwide pooling, with most of the scholars' endorsement. Zhen Li emphasized that provincial pooling would be a solid mechanism, through which China should unify the system, the standards, and the management at provincial level, in order to achieve an appropriate balance of pension funds in the pooling areas and reduce the management costs and investment risks.[87] Feng Lanrui argued that the nature of social security was socialization, and a high pooling level meant the improvement of the socialization level.[88] Wan Chun's and Qiu Changrong's research pointed out that nationwide pooling was the important safeguard to improve the pension system because China had met the conditions to implement it.[89]

But up till now, only a few provinces have implemented provincial pooling, including Beijing, Shanghai, Tianjin, Shaanxi, and Fujian. The current pension system is composed of nearly 2,000 official agencies nationwide operating at provincial, municipal or county levels. The low pooling levels are neither sufficient to achieve an appropriate balance for all funds, nor capable of risk averting; moreover, portability becomes more difficult. Wang Xiaojun has proposed the following reasons to explain this situation.[90] The first reason is to be found in the regional differences with regard to historical debts, the level of economy development, the population structure, the coverage of the pension system and the rate of pension benefit. Second, different interests among the Central Government, local governments, enterprises and individuals seriously impede the improvement of the social pooling levels.

Another aspect of the management of the social insurance funds in China discussed by scholars is how to manage the 'personal account' within the 'Basic Old-Age Insurance Scheme'. Most scholars propose that China should manage the savings based on the personal account mechanism independently from social pooling, because social pooling is mainly aimed at income redistribution with its PAYG foundation, while the personal account is aimed at mandatory saving. So from the theoretical perspective, the two different funds should be managed separately (Zhen Li; Li Shaoguang; Chen Gong and Xie Zhenfa, amongst others).[91] This suggestion was later adopted by the pilot experiment in northeast China.

The balance of the PAYG fund and the accumulation of the funding scheme should have different investment/asset management and operation mechanisms due to their different strategies. The funds are proposed to be organized as a trust fund, with its independent trustee and custodian hired from the financial market. Meanwhile, the government should relax the limitation of the investment policy for the funding scheme. As the old-age crisis goes ahead rapidly, the ratio of the funding scheme should be increased, according to Li Shaoguang.[92]

Various suggestions on this issue were brought up from different perspectives. Wu Jinglian and Zhou Xiaochuan proposed that China should establish several competitive pension foundations to manage the pension fund with the personal

account.[93] Zhen Li and Gu Shengzu suggested that private fund management companies should improve the efficiency of management.[94] Ge Yanfeng proposed to rebuild finance, insurance and trustee institutions for providing the investment management services.[95] Yi Lin suggested that a social security banks could be a feasible choice.[96] Yang Yiyong proposed that the government should set up a social insurance fund management company.[97] Feng Lanrui agreed with the decentralization of the management; that is, to select several financial institutions, which had passed public auditing, to undertake this responsibility.[98] A research group for Chinese pension fund estimation and management pointed out that the principal–agent framework would be suitable, in which the good governance or check-and-balance would be established on the relationships among the fiduciary, investment manager, depositary, etc.[99] Li Jiange suggested that the pension funds with personal accounts should be managed by the government institutions, but the operation agencies should be separated from the fund supervision body.[100] He proposed to set up a nationwide fiduciary that would stand at the top tier of the government system. Meanwhile, the market orientation would be inevitable in the mid and long run. Yang Yansui also proposed that China should set up a trustee system. Generally speaking, most of the Chinese experts agree that market-orientation reform is inevitable, and the management should be separated from the operation within a proper principle–agent framework.[101]

Some Chinese experts also emphasized that a supervisory body should be established. They suggested that the government should set up a committee for social security supervision. Moreover, Zhang Xinmin analyzed the improvement and innovation of social insurance funds supervision, and proposed to construct a pre-warning mechanism.[102] Zhen Li put forward suggestions for both internal and external controls, and suggested the organization structure of a committee, composed of delegates of employers, employees, experts, and governments.[103]

As we have seen, many scholars are very involved in the debate on China's social security system reform. When it comes to the financial mechanism, they have different opinions corresponding to three schools adhering to the funded scheme, PAYG system or NDC system respectively. Members of the first school propose to transfer part of state assets to compensate Implicit Pension Debt (IPD). On the issue of fundraising, until now scholars have not agreed on a social security fee or tax. Moreover, various suggestions on the fund management are brought up from various perspectives. Generally speaking, there is an agreement on:

1. improving the pooling level to provincial level at least
2. separately managing the funds in social pooling accounts and personal accounts
3. introducing a market-orientation operation within a proper principle–agent framework
4. improving the supervision mechanism.

### *2.5 Challenging tasks and options*

So far we have seen how, during a period of about 20 years, the reforms have improved the Chinese social security system by adapting it to the evolution of the economic and social situation. Nevertheless, we must recognize that the system has some shortcomings that run the risk of questioning its sustainability.

#### *2.5.1 The coverage of social insurance*

For some historical reasons, the social insurance system in urban areas covers mainly the state sectors. The non-state sectors, individual businesses in industry or commerce and those which are employed in a flexible manner have only spotty coverage. All these can be shown by the total coverage ratio of different social insurance programmes. According to the statistical data, by the end of 2007 the coverage ratios of old-age insurance, unemployment insurance, medical insurance, work-related injury insurance, and maternity insurance are 68.6, 39.7, 61.4, 41.5, and 26.5 percent respectively.[104] Therefore, one of the most urgent problems the government faces is how to expand the coverage of social insurance.

#### *2.5.2 Pooling level*

Taking the old-age insurance as an example, the pooling level in the majority of the provinces, autonomous regions and municipalities directly under the Central Government (except Beijing, Shanghai, Tianjin, Shanxi, Fujian, amongst others) stays at the county level or municipal level. The current pension system is composed of nearly 2,000 official agencies nationwide, operating at provincial, municipal or county levels. The situation of the operation of other programmes is worse than the pension system.[105] From the perspective of finance, the low pooling levels are neither sufficient to achieve an appropriate balance for all funds, nor capable of risk averting; moreover, the portability becomes more difficult. For example, the balance of old-age insurance in 2005 was 105.3 billion yuan nationwide, meanwhile, 19 provinces had deficits and state budgets at all levels contributed 65.1 billion yuan toward basic old-age insurance funds, of which 54.4 billion yuan came from the central budget and 10.7 billion yuan from local budget. In fact, the 3rd Plenary Session of the 16th Congress of CPC in 2003 declared that the aim of social security management was to build up provincial pooling of social insurance contributions step by step and eventually realize nationwide pooling. This clearly means that China must take some strong measures to raise the pooling level.

In fact, the necessity to improve the pooling at the provincial level was put forward officially in the document 'Regulations on the Reform of Old-age Insurance for Enterprise Employees' in 1991. Thereafter, it was mentioned in all official regulations and decisions. But up to now, this goal to 'provincialize' the pension has not been achieved. As is known, China is a unitary country and authorities are centralized at the Central Government, including the appointment of inferior officials. It is not clear why the Central Government does not simply order the

local governments to comply with the State Council regulations. Scholars have done some in-depth researches to explain this paradox. Since the economic reforms of the 1980s, there has been little doubt that new fiscal arrangements have given local governments greater responsibilities than existed under the planned economy to carry out local industrial development projects, collect revenues, and manage social welfare issues. As a result, the Central Government can find it very difficult to implement policies if it is not in the interests of local officials to do so.[106] For example, if the Central Government hopes to improve the pooling level, the rational choice of richer districts is to misappropriate or embezzle the accumulated pension funds, or to help companies to avoid paying contributions. In essence, the issue of the pooling level is to deal with the allocation of responsibilities and powers of finance and administration among different levels of government. In the light of contract theory, a useful method for allocating responsibilities and powers among different levels of governments is to decide the boundaries by negotiation.[107] For China's pension system, several issues should be defined before improving the pooling level:

1 the proportion of subsidies for the deficits among different levels of government
2 how to cover the transition cost
3 how to preserve and improve the value of personal account funds, which we will deal with in the following sections.

We consider that as soon as the above issues are solved, the barriers for improving the pooling level will disappear or at least will considerably lose their force. Anyway, we are deeply convinced that the basic method to deal with the above issues is to set up an appropriate institutional framework within which the various levels of government will be able to express their respective interests and will find a collectively agreed solution through negotiation.

### *2.5.3 The transition cost and the 'Empty Personal Account'*

In order to satisfy the needs of the ageing population and adapt to the economic and social reform, China established a social-pool-plus-personal-account scheme, which was different from the traditional PAYG system. Therefore, it faced an inevitable transition cost, which totalled 1–10 trillion yuan according to the calculations made by different scholars.[108] In theory, the government should compensate for that cost. However, it seems that the government does not plan compensation, which leads to the problem of the 'Empty Personal Account' reaching 900 billion by the end of 2006. Due to the background and reasons for the empty account, it is easy to conclude that the empty account is closely related to the transition cost. So, how to raise funds to compensate for the transition cost becomes a vital problem.

Experts suggested various approaches to raise pension funds, such as expanding the coverage, raising the contribution rate, transferring the state assets, issuing

state bonds or using welfare lotteries, etc. Another set of suggestions proposes to raise the retirement age, to reduce pension replacement rate etc. Among these suggestions, the proposal to allocate part of state assets to enrich social security funds had attracted the attention of many people. On June 12, 2001, the State Council enacted 'The Interim Measures for Allocating State Assets to Enrich Social Security Funds', which gave some specific measures for allocating state assets to compensate the deficits of the social security system. However, due to the opposition of stakeholders in the stock market, this decision was suspended. Related to the allocation of the asset of SOEs, the Central Government established the 'National Social Security Fund' (NSSF) as the strategic reservation fund dealing with the ageing of the population, managed by the National Council for Social Security Fund in 2000. Up to now, the total sum of this fund reached 280 billion yuan,[109] which may not be used during the next 20–30 years; that is, until the ageing of the population will attain its climax.

Doubtless, the allocation of some state assets is a good way of financing the transition cost, though it is difficult in the short term to compensate the deficits between revenues and expenses of the pension system.[110] Meanwhile, granted that capitalizing the personal account is the only way for managing China's pension system, embezzling the personal account funds will be strictly forbidden by separating the management of the social pooling account and the personal account. Therefore, allocating budget funds to subsidize the deficits is the exclusive choice in order to guarantee the payment of pensions on time and in full. Considering intergenerational fairness, this method will increase the burden of active workers, while on the contrary, the burden of the next generation will be very light, with the accomplishment of the transition of the pensions system from the PAYG scheme to the social-pool-plus-personal-account plan in about 2030. Therefore, some scholars suggest borrowing some funds from personal accounts to subsidize the deficits, which would be refunded by the assets of the National Council for Social Security Fund.[111] It is evident that this is a very valuable method of equalizing the burden on different generations.

Based on the hypothesis of 5 percent of capitalizing personal account,[112] the following paragraphs will analyze the financial burdens of different provinces for the year of 2006 and give some suggestions on how to divide the financial responsibility among different levels of governments to compensate for the transition cost. Table 3.3 calculates the ratio of financial burden.

Table 3.3 shows first that the shortfalls of the pension system in 10 provinces are much heavier than elsewhere; that is, Tibet, Qinghai, Heilongjiang, Liaoning, Hainan, Hubei, Hunan, Xinjiang, Chongqing and Jilin (in decreasing order), for which the ratio of the financial burden in these provinces is greater than 8 percent. Second, the social pooling accounts in Beijing, Guangdong and Zhejiang have some surplus and the ratio of financial burden in five provinces; that is, Shanxi, Jiangsu, Fujian, Shandong and Ningxia, is less than 4 percent. Third, the remaining 13 provinces stand between the previous two groups, with a ratio of a financial burden between 5 and 8 percent.

Therefore, the division of subsidy responsibilities between central and provincial

*Table 3.3* Revenues and expenses of old-age insurance in 2006

| *Region* | *Revenue (1)* | *Premium revenue (2)* | *Assets in social pooling account*[A] *(3)* | *Expense (4)* | *Amount of governmental subsidies*[B] *(5)* | *Financial revenue of local government (6)* | *Ratio of financial burden*[C] *(7)* |
|---|---|---|---|---|---|---|---|
| Overall | 6308.6 | 5213.7 | 4282.7 | 4895.9 | | 18303.6 | 3.35 |
| Beijing | 289.1 | 284 | 233.3 | 228.7 | -4.6 | 1117.2 | -0.41% |
| Tianjin | 157.5 | 119.3 | 98.0 | 130 | 32.0 | 417 | 7.67% |
| Hebei | 252.7 | 202.5 | 166.3 | 214.7 | 48.4 | 620.5 | 7.79% |
| Shanxi | 182 | 139.5 | 114.6 | 114.7 | 0.1 | 583.4 | 0.02% |
| Neimeng | 125.8 | 91.7 | 75.3 | 96.2 | 20.9 | 343.4 | 6.08% |
| Liaoning | 424.5 | 292.6 | 240.4 | 351.6 | 111.3 | 817.7 | 13.61% |
| Jilin | 158.1 | 110.7 | 90.9 | 111 | 20.1 | 245.2 | 8.18% |
| Heilongjiang | 279.6 | 182.7 | 150.1 | 203.7 | 53.6 | 386.8 | 13.86% |
| shanghai | 424.2 | 395 | 324.5 | 414 | 89.5 | 1576.1 | 5.68% |
| Jiangsu | 486.4 | 453.4 | 372.4 | 381.1 | 8.7 | 1656.7 | 0.52% |
| Zhejiang | 352.7 | 336.7 | 276.6 | 221.9 | -54.7 | 1298.2 | -4.21% |
| Anhui | 162.9 | 128.6 | 105.6 | 129.5 | 23.9 | 428 | 5.58% |
| Fujian | 122.3 | 118.9 | 97.7 | 103.2 | 5.5 | 541.2 | 1.02% |

*(continued)*

| *Region* | *Revenue (1)* | *Premium revenue (2)* | *Assets in social pooling account*[A] *(3)* | *Expense (4)* | *Amount of governmental subsidies*[B] *(5)* | *Financial revenue of local government (6)* | *Ratio of financial burden*[C] *(7)* |
|---|---|---|---|---|---|---|---|
| Jiangxi | 102.8 | 73.8 | 60.6 | 84.5 | 23.9 | 305.5 | 7.82% |
| Shandong | 440.7 | 406 | 333.5 | 351.8 | 18.3 | 1356.2 | 1.35% |
| henna | 235.4 | 187.1 | 153.7 | 190.1 | 36.4 | 679.2 | 5.36% |
| Hubei | 239.8 | 169.5 | 139.2 | 201.9 | 62.7 | 476 | 13.17% |
| human | 213.4 | 155 | 127.3 | 181.3 | 54.0 | 477.9 | 11.29% |
| Guangdong | 560.2 | 531.6 | 436.7 | 307.3 | -129.4 | 2179.5 | -5.94% |
| Guangxi | 79.2 | 65.4 | 53.7 | 71.3 | 17.6 | 342.6 | 5.13% |
| Hainan | 40.7 | 28.7 | 23.6 | 34.3 | 10.7 | 81.8 | 13.11% |
| Chongqing | 112.2 | 83 | 68.2 | 95.9 | 27.7 | 317.7 | 8.73% |
| Sichuan | 292.8 | 235.4 | 193.4 | 228.2 | 34.8 | 607.6 | 5.73% |
| Guizhou | 66.6 | 50.2 | 41.2 | 53.6 | 12.4 | 226.8 | 5.45% |
| Yunnan | 99.4 | 73.2 | 60.1 | 86 | 25.9 | 379 | 6.83% |
| Tibet | 5.9 | 3.5 | 2.9 | 5.1 | 2.2 | 14.6 | 15.24% |
| Shaanxi | 134.1 | 103.5 | 85.0 | 105.8 | 20.8 | 362.5 | 5.73% |
| Gansu | 80.9 | 63.8 | 52.4 | 61.4 | 9.0 | 141.2 | 6.37% |

*(continued)*

| *Region* | *Revenue (1)* | *Premium revenue (2)* | *Assets in social pooling account*[A] *(3)* | *Expense (4)* | *Amount of governmental subsidies*[B] *(5)* | *Financial revenue of local government (6)* | *Ratio of financial burden*[C] *(7)* |
|---|---|---|---|---|---|---|---|
| Qinghai | 29.3 | 20.8 | 17.1 | 23 | 5.9 | 42.2 | 14.01% |
| Ningxia | 27.2 | 22 | 18.1 | 20.3 | 2.2 | 61.4 | 3.63% |
| Xinxiang | 130.1 | 85.4 | 70.2 | 93.4 | 23.3 | 219.5 | 10.59% |

Source: calculations done by Liu Dehao, *Developing Social Security System in China*, Lugano, 2008.

A = (2)*23/28, which stands for the proportion of social pooling account in old-age insurance.

B = (4)–(3), which is the amount of shortfalls of the pooling account and should be paid by governments.

C = (5)/(6), which stands for the financial burden.

governments should be based upon the relationships between the shortfalls of the pension system and the financial capacity of the different provinces.

The 10 provinces of the first group, with a ratio of financial burden greater than 8 percent, all belong to the old industrial districts with a heavy history of financial burdens, such as the northeast provinces, or are provinces (seven in number) comprising undeveloped districts. So, the Central Government should bear more financial responsibilities for these provinces. The proportion can be placed at 75 percent for the Central Government, and 25 percent for provincial governments, which by the way is the proportion used for the 'Northeast Pilot'. The provinces in the second group all possess developed districts with a light burden in the pension system. Therefore, the Central Government burden should be smaller than for the first group. The proportion can be set at 25:75 percent. But Ningxia and Shanxi should be excluded from this group and put into the third group because of the relatively lower level of economic development. The provinces of the third group stand in between the first two groups, not only from the aspect of the pension burden, but also for the financial capacity. So, for these provinces the proportion can be set at 50:50 percent.

In any event, the proportions mentioned above should be considered only as a reference framework, and the actual proportion should be decided by negotiation between the Central Government and provincial governments. Correspondingly, the division of burden between provincial governments and local governments should be decided in the same way.

### *2.5.4 Pension fund investment*

According to the two official documents, the 'Regulations on Deepening the Reform of Basic Old-age Insurance for Enterprise Employees' (1995) and the 'Regulations on Unifying the Basic Old-age Insurance for Enterprise Employees' (1997), China's social security funds are managed strictly by investing in state bonds or depositing in state banks under the management of the social insurance administration centres at the pooling level. These narrow investment channels and the decentralized management model lead to the relatively low profit rate of 2.18 percent, while the rate of inflation is 2.22 percent.[113] In order to realize the aim of preserving and increasing the value of pension funds, China's government may consider some new ways, including expanding the investment channels and reforming the investment model. The former Social Security Fund Supervision Department of Ministry of Labour and Social Security (MoLSS) is drafting the new 'Investment Management Measures on Personal Account Fund within Old-age Insurance System' to probe the new ways.

Some scholars pay more attention to the interaction between the investment of the pension fund and the securities market. It is said that the social security fund has the potential of becoming a major source of capital for China's stock market. The investment of social security funds in the stock market will help to solve some long-standing problems, including the market's emphasis on short-term speculation.[114] Since the fund will adopt a long-term investment strategy, its entry into the

stock market will alter the market atmosphere. And these scholars also consider that it is wrong to think of the establishment of social security funds merely in terms of the sale of state shares, adding that both the China Securities Regulation Commission (CSRC) and securities investors should gain a clearer understanding of the impact of social security funds.

### *2.5.5 Peasant workers and land-lost peasants' social security*

Another factor, explaining that the coverage of present urban social security schemes leaves much to be desired, is the pace of migration and urbanization of Chinese farmers. According to the latest data available, a total of at least 120 million workers transferred to non-agricultural industries, some of whom are temporarily employed or settled for one or two years in cities.[115] For some reason, the participation ratio of migrants in medical insurance, old-age insurance and other social security programmes is very low. So, most migrants lack the guarantee of a formal social security system, although they contribute very much to the development of cities. Also, with urbanization and industrialization, about 40 million peasants who lost their lands have transferred to urban areas, but experience serious difficulties getting coverage by the urban social security system because of the duality treatment between urban and rural areas I explained above in chapter 2, point 3.4.2.

### *2.5.6 Social security law lag*

The major part of the government's work lies in the establishment of a sound legal system and working out concrete implementing measures, and moreover in assuring supervision over the whole process. However, China's social security laws and regulations building is very undeveloped. Most social security programmes stipulate the form of measures promulgated by the related functional departments, such as the MoLSS and the MoF, so legal validity and security are relatively low. At present, the Central Government is urging the enactment of the 'Law of Social Insurance', which will be promulgated by the National People's Congress (NPC) Standing Committee. When it is adopted, it will become the most authoritative law in the domain of social security.

### *2.5.7 The reform of medical insurance*

The reform of medical insurance in China is the hottest topic since Ge Yanfeng, a researcher of the Development Research Centre of State Council, said in 2005 that the reform of the medical security system had basically failed. Nevertheless, several scholars drew the attention of the Chinese authorities to the shortcomings of the health system well before this date.[116] The reason why many scholars and officials focus on it is due to the phenomenon of limited and selective access, and to the increasing expensiveness of medical services. Of course, what causes these kinds of results is very complicated; however, the irrationalities of the medical

service delivery system and the imperfect medical insurance system are critical, and their interactions have caused the situation to worsen in recent years.

The incentives that the government has introduced, in order to force the providers of medical services (especially hospitals) to cover their costs in the absence of government subsidies to cover the annual deficits, have modified the behaviour of doctors, and this has led to an abuse of drugs and high-tech medical procedures with the consequent increase of medical costs, because of the information asymmetry between patients and doctors.[117] One study found that 20 percent of all expenses associated with the treatment of appendicitis and pneumonia was clinically unnecessary, out of which one-third of drug expenses were considered to be unnecessary, and length of stay could be reduced by 10–15 percent without any adverse effects on health outcomes.[118] In fact, the state directly ran hospitals and clinics, and exercised total control over the pharmaceutical sector in the planned economy and assumed all the costs of providers of medical services. Yet, in the 1980s a reform with the aim of encouraging the providers of medical services to be more proactive was launched. It amounted to 'giving policy incentives rather than giving money', which encouraged the hospitals to develop their own income streams. The government decreased investment in the hospitals, which only covered part of fixed costs, such as buildings and capital. Since the hospitals are not fully financed by the government, they gain some rights to pursue other than public interests. In practice, because the government regulates the price of medical treatment below the actual costs, the hospitals have to compensate for this through profits made on drugs and high-tech diagnosis. Table 3.4 shows that income from drugs has become the main income source of hospitals, up to more than 50 percent.

In order to guarantee the access to basic care, the government tried to limit the prices of some drugs in order to decrease medical costs. Yet, because of the profit drives, the doctors tend to substitute drugs with a regulated cost with other types of drugs, and the companies producing drugs would change the name, dosage or package of the drug so that it would not be included in the regulated lists as a new

*Table 3.4* The structure of medical expenses (2001–2007)

| | *2001* | *2002* | *2003* | *2004* | *2005* | *2006* | *2007* |
|---|---|---|---|---|---|---|---|
| Average medical expense per outpatient (yuan ) | 93.6 | 99.6 | 108.2 | 118.0 | 126.9 | 135.8 | 128.7 |
| Of which: for drugs (%) | 57.7 | 55.4 | 54.7 | 52.5 | 52 | 50 | 50.5 |
| Average medical expense per inpatient (yuan) | 3245.5 | 3597.7 | 3910.7 | 4284.8 | 4661.5 | 4964.4 | 4668.9 |
| Of which: for drugs (%) | 45.5 | 44.4 | 44.7 | 43.7 | 43.9 | 43.2 | 42.7 |

Source: Centre for Statistical Information, Ministry of Health, 'Statistical Communiqué on China's Health Career Development', 2005, 2007).

drug. In fact, from 1998 to 2006, the government has implemented price reductions of drugs 17 times without success.[119]

The rising costs of medical care hindered access to basic care. For example, the percentage of people who were entitled to receive a medical service but were not able to benefit from it was 36.4 percent in 1993 and has risen to 48.9 percent in 2003. This ratio was even as high as 63.7 percent in 1998 and has risen to 75.4 percent in 2003 according to the result of the 3rd National Health Service Investigation by the MoH in 2003. The limited access to medical services is also very much related to the imperfections of medical insurance, especially to the low coverage and payment method.

On the other hand, the indirect effects of the imperfections of medical insurance on the phenomenon of limited access and expensiveness of medical services can be described as follows. First, the low coverage leads to a serious lack of basic medical security. According to an investigation conducted by the MoH, 30.2 percent of urban residents are covered by the basic medical insurance, four percent, who are civil servants and employees of public institutions, are covered by 'free medical services' (called 'Socialized Medicine') and 4.6 percent by labour insurance. From this we can deduct that 44.8 percent of urban residents do not have any medical insurance at all; in rural areas, only 9.5 percent participate in the new rural cooperative medical service system, 3.1 percent are covered by all kinds of social medical insurance and 8.3 percent purchase commercial insurances, so the ratio without any medical insurance reaches 79.1 percent. To a certain degree, the lack of medical security affects demand for medical services. According to the investigation of the MoH, 32.8 percent of the potential outpatients have in fact no access to medical treatment because they cannot afford it, and 70 percent of the patients who would be entitled to be treated in hospital in fact renounce treatment for the same reason. It is therefore clear that this medical care system penalizes especially poor people.[120]

Second, the proportion of private payment of medical expenses is so high that the restriction to the providers of medical service is weak, with the result that patients are over-treated because of asymmetric information between patients and doctors, as mentioned before. Private payment is the main way to pay for medical expenses and its proportion increased from 21.2 percent in 1980 to 55.5 percent in 2003, and it even reached 60 percent in 2001. This means that the capability of medical insurance to restrict over-treatment is very limited. Therefore, the imperfections of medical insurance are one of the important factors that explain why medical services are so expensive.

Third, the payment method is not rational. For a long time, China carried out the fee-for-service (FFS) payment method, which resulted in providers generating demand for expensive care. In some provinces, there are some payment method reforms, including a switch from FFS to capitation or to Diagnosis-related Groups (DRG)-based payment. For example, Jiujiang, by switching to capitation in 2001, managed successfully to decrease the medical expenses per insured inpatient from 2,320 to 1,778 yuan and the share of drug spending in total spending from 76.5 to 59.8 percent.[121] Zhenjiang switched to a DRG-based payment method for

82 diseases in 2001, by which the average expenditure was reduced to 25 percent less than other districts.[122] The decrease of medical costs thanks to changing the payment methods was accompanied by the risk that the providers tended to skimp on quality. So effective supervision of medical quality is very important.

Fourth, the shortage of gatekeeper arrangements induced some irrational medical demands. Some advanced hospitals are very crowded, whereas primary hospitals lack patients. Table 3.5 shows this situation clearly.

In order to build up a better medical security system, many scholars and officials put forward several proposals. In September 2006, the State Council Development and Reform Commission and the Ministry of Health took the lead in establishing a health care reform coordinating group composed of 16 ministerial-level organizations, the aim of which was to draft a new plan for health care reform. In 2007, this group asked six agencies (Peking University, Fudan University, World Bank, Development Research Centre of State Council, McKinsey Group and World Health Organization) to produce parallel independent plans for health care reform. Lately, Beijing Normal University and Renmin University of China were added. The coordinating group held a forum to discuss these eight plans in detail on 29–30 May 2007. Tsinghua and Harvard University jointly drafted the ninth plan in June. China Academy of Sciences and medical experts in Guangdong provinces submitted the tenth plan to the group on 2 February 2008, which was very different from the other nine plans because its special research team consisted of a clinician, apothecaries, professors and officials whereas the other plans were drafted by economists. Each of the ten proposals dealt with funding models, management systems and oversight mechanisms, and presented different opinions (see Table 3.6).

Though there were differences amongst the proposals, all recognized that the coverage of social medical insurance was very low, and government intervention and investment would be required and the boundary between government and market should be drawn clearly. President Hu Jintao announced the establishment of a basic health care system that would raise the general level of public health, in November 2007 at the 17th National Congress of CPC, which became the guideline for reforming the medical security system. By the end of November 2007, the reform plan was submitted to the State Council based on the research mentioned above. This reform plan consists of four major systems and eight mechanisms based on the overall goal of establishing a basic health care system. The four systems involve public health services, medical services, medical social security, and pharmaceutical supplies. The eight mechanisms cover management of medical care services, operations, funds and investment, monitoring and supervising, information technology, human resources, price-setting and legislative guarantees. The overall concept is characterized as market-oriented with a clear line separating the roles of government and market.[123]

*Table 3.5* The workloads of different ranks of hospital in 2005

| *Index* | *Total of hospitals* | *Third level* | *Second level* | *First level and others* |
|---|---|---|---|---|
| Total of hospital | 18703 | 946 | 5156 | 2714 |
| Times of diagnosis and treatment (million) | 1387 | 397 | 542 | 105 |
| Times of hospitalization (thousand) | 51080 | 14180 | 22980 | 2070 |
| Utilization ratio of sickbed (%) | 70.3 | 90.5 | 68.1 | 49.6 |

Data sources: Centre for Statistical Information, Ministry of Health, '2005 Statistical Communiqué on China's Health Career Development'.

*Table 3.6* Main proposals for health insurance by Chinese experts

| *Agency* | *Main points* |
|---|---|
| Peking University | Emphasizing the responsibility of government. Setting up a health care system covering all the people. Increasing the government investment by 200 billion. |
| Fudan University | Funding model: social insurance + governmental budget + individual out-of-pocket payment. Providers of medical service: NGO hospital + government-sponsored hospital + profit-oriented hospital. |
| Development Research Centre of State Council | Embedding a public health system and basic medical security system into the present system. |
| WHO | Basic medical service covering all the people. Medical relief to the poor persons in urban and rural areas; the third party payment. |
| World Bank | Not available. |
| McKinsey Group | Not available. |
| Beijing Normal University | Government purchasing medical services by social medical insurance system covering all the people. Encouraging the competition of providers of medical services. |
| Renmin University of China | Insisting on the coordination between government and market, subsidy to hospitals and medical insurance system. Paying more attention to the indisposition and prevention. |
| Tsinghua and Harvard | Localized strategy considering the different development level of different districts. |
| China Academy of Sciences and experts in Guangdong | Setting up a medical security system covering all the people, particularly, government should assume the premium of medical insurance for poor persons equal to about 0.8 billion. |

### *2.5.8 The social security fund supervision*

Just as the discussion of medical insurance was triggered by a researcher's review, the fund supervision came to the fore of social security in the light of the Shanghai Scandal in 2006.[124] A subsequent National Audit Office report the same year uncovered other serious cases of fraud, misappropriation and non-compliance totalling 30.8 billion yuan. In fact, China's social security supervision system includes three parts: administrative supervision by the Ministry of Labour and Social Security, special supervision by the Ministry of Finance and the National Audit Office (NAO), and social supervision by the Social Security Fund Supervision Committee. Also, the Chinese government carried out a project to unify social security networks in order to realize exchange of updated information with an aim to improve the transparency of the system.

## Conclusion

I will present the conclusion to this chapter in two parts, the first on social security and the second on the set of policies implemented by the Chinese government to rebalance the Chinese economy and society. After years of experiments and practice, a social security framework with Chinese characteristics has taken initial shape. However, China still has a long way to go to develop its social security services to a satisfactory level. Moreover, as we have mentioned above, China's social security system also faces many important challenges. The urgent tasks for China in this domain are to improve the social security laws and regulations, expand the coverage, and strengthen social security fund investment and supervision in order to preserve and increase the fund's value. Without question, the government is duty-bound to urge the reform process forward. Yet, during the process of policy making and implementation, widespread democratic participation will be very valuable in order first to understand, and then meet the demands and expectations of the Chinese people.

It is clear that the Chinese government has already taken, and is still taking today, very serious measures in this direction. Nevertheless, the reasons that I have presented above to explain the shortcomings of the Chinese social security system are worth mentioning. For this purpose I will take the example of the health sector.[125] As I have mentioned before, the major features of the health system that have limited the access to health care to those who can financially and individually afford them, and that exclude large areas of Chinese society, have been very clearly inspired by neo-liberal conceptions of the role of the state, the so-called 'New Public Management', based upon the introduction of market mechanisms or of quasi-markets.[126] Whether this can produce interesting results (both in terms of economic efficiency and of citizens' satisfaction) will depend on many conditions, and above all on the nature of the service provided. I have explained elsewhere that for public goods, or even for merit goods, the introduction of market or quasi market mechanisms will by no means guarantee the realization of the positive results mentioned above. These goods are generally closely related to human capital and

to its development or to its underdevelopment.[127] Goods or services such as health, education, drinkable water, and decent homes (which I group under the label of soft infrastructure) are the indispensable assets a country must be able to count on when it wants to develop its society in all domains. As all domains are closely linked together (one thing that the Chinese government has very well understood), it would be foolish to try developing only (or during an initial development stage) hard infrastructure such as roads, railways, airports, ports, etc. A well-educated population, in good health with accessible drinkable water, a fair social security system and living in decent and pleasant lodgings, will be an invaluable driver for economic and social development. On the contrary, phenomena like over-consumption (induced by the supply) and over-costs due to asymmetry of information in favour of suppliers who are encouraged to maximise their profit, as well as an inefficient allocation of resources, will result in contra-productive outcomes, as the case of the Chinese health system has very well demonstrated.

Moreover, poor soft infrastructure will inevitably render even more evident the unequal distribution of the benefits resulting from economic development. In this case protest movements are likely to develop, as has already been the case in China during the last decade. Social harmony and social and political stability will not be assured without a strong government commitment, followed by practical and successful implementation of a set of policies aimed at satisfying the legitimate needs of the overall Chinese population. This will necessarily imply the intervention of the government at all levels (but especially at the central level) for financing, organizing, supervising, and evaluating the implementation, effectiveness, and efficiency of these policies. This does not mean that private initiatives are out of the question. On the contrary, increasing sectors of the Chinese population are financially capable of satisfying part of their needs by private means. Private social insurances, private hospitals, as well as private schools at all levels (but especially at the secondary, university levels, and institutions for adult education) will be a necessary and efficient complement to the state's intervention in these domains. But it is certain that the services provided by the state (or under its supervision and control) should be made available to the entire Chinese population, at a satisfactory level of quality, and an affordable price.

The progresses realized in the domain of social security have been recently recognized by a study by the Word Bank, conducted by a team of Chinese and Western experts, as we have already mentioned above in the introduction to section 2 of this chapter. Nevertheless, the World Bank strongly urges China to continue on the road of improvement, especially for the purpose of reducing the gap between the rich and the rest of the population.[128] Moreover, another report of the World Bank, evaluating the results of the 11th Five-Year Plan during the first two years (i.e. from 2006 to 2008)[129] recognizes that improvements have been (and are still being made) in practically all the rebalancing policies set up by the Chinese leadership. First, economic growth has far exceeded expectations, inflation has been kept low, the performance of the industrial sector has improved, although insufficient progress on macroeconomic rebalancing and changing the economic and industrial structure has limited progress on energy and water intensity (i.e. the amount of energy per

unit of output), and environmental quality. Second, considerable progress has been made towards the Five-Year Plan's most important social objectives: improving basic public services in social protection, education, health, and conditions in rural areas, even though income disparities between rural and urban areas continue to grow. Third, and linked to the second point, progress on the environmental objectives has been mixed and immense environmental challenges remain, such as the reduction of China's energy intensity. Nevertheless, the World Bank also considers that in spite of strong political commitment and remarkable progresses achieved in all domains, 'little progress has been made in rebalancing the overall pattern of growth, which has in turn limited progress on other key objectives'.[130] It is therefore imperative that China continue on the road of reforms.

To these important improvements we should also add the new labour market legislation introduced in 2008 that strengthens the power of workers and employees both individually and collectively: the 'Labour Dispute Mediation and Arbitration Law' that suppresses the fees of arbitrage and gives legal force to the decisions of the Arbitration Commission; the 'Law on Employment Promotion' that abolishes different forms of discrimination; and the 'Labour Contract Law' that improves the protection of employees in case of redundancy and of abuse of short-term contracts (for example, after 10 years within the same company short-term contracts become illegal). Moreover, the Chinese government has established the principle of minimum wages, the provinces being able to fix them taking into consideration the conditions of the local labour market. Even if the minima are very low, this policy shows that the interests of the working people are being taken into consideration more seriously than in the past.[131] Moreover, the role of the All-China Federation of Trade Unions (ACFTU), that has admitted for the first time representatives of the migrant workers at the last national congress of October 2008, is becoming more active in the defence of employees, as it has been recently recognized by the China Labour Bulletin, a very critical NGO based in Hong Kong.[132]

Parallel to these improvements, it is also necessary to mention the development of organizations within civil society. A considerable number of NGOs have emerged during the last decades, as we have shown above in the paragraph concerning the environmental policies (page 112–13). Whereas it is true that the Chinese government keeps part of theses organizations under control, it is also true that it counts upon the activities of many NGOs, especially in social domains, to provide services the State is otherwise unable or unwilling to deliver.[133] Moreover, not only have protest movements increased in number and intensity, but also the number of cases brought before the courts have dramatically increased and, more often than in the past, with some success.[134] Finally, all these changes are echoed and commented upon in the Chinese mass media which reports on practically all the problems faced by the Chinese leadership, such as disparities, pollution, poverty, and corruption.[135]

The validity of the new development strategy has been challenged by a serious test when the financial and economic global crisis burst forth in the autumn of 2008.[136] It is recognized by some of the most well-documented and reliable sources that China is doing much better than Western countries in taking efficient

measures to overcome the crisis, in spite of the high dependency of China's development on exports, which is generally considered as the major driver of China's development during the last 20 years. For example, the World Bank, in spite of considering that 'a rapid recovery seems unlikely and uncertainty remains', after having estimated in March 2009 China's GDP growth for 2009 at 6.5 percent, has revised its estimation to 7.2 in June 2009.[137] This success can be explained by several factors, in addition to the reasons I have already given about the validity of the new strategy that 'puts people first'. First, contrary to the situation of Western countries, and especially the US, China has a huge percentage of households' savings. It can therefore set up policies aimed at encouraging internal demand quite easily, if at the same time it implements (and is in fact implementing as we have seen in this chapter) several policies that reassure the population as to its access to crucial services such as health, education and retirement pensions, which are the main reasons explaining the high rate of savings in Chinese households. The Chinese speed of reaction is far from matched by that of Western countries, embedded and paralysed as they are by the futile controversy between liberals and neo-Keynesians. The Chinese leaders, who for decades have been accused of, and scorned for, orienting their behaviour by ideological considerations, seem today to be much more practical than their Western colleagues. Second, an investment programme of several billion yuan decided as early as October 2008 to stimulate the economy, was almost immediately followed by the launching, before the end of the year, of 93 projects for an investment of US$58 billion that were approved within the space of just three days. Third, the high rate of households' savings (that are generally deposited with the state banks) had the consequence that the Chinese banks did not suffer from the financial crisis.[138] Moreover, the stimulus package, while being effective in sustaining economic development, creates new needs such as the development of infrastructure (such as metros and high speed trains), power plants, telecommunications, hospitals and water treatment plants, and the production of energy-efficient vehicles (including buses, taxis and even bicycles). Last but not least, China is investing in high technology. All these facts and trends show that very likely China will soon become the second economic world power, but also an innovator in high technologies and an attractive country for foreign investments.

Finally, it is interesting to remark that the history of China's reforms (and the case of the Chinese social security system, presented in section 2 in detail, is a good example) helps to understand the strategy of the Chinese leadership when it comes to finding the most suitable solution to complex problems, not only in theory or by considering the experiences of other countries, but also by taking advantage of the expertise existing within the Chinese intelligentsia, while cooperating with the most knowledgeable international sources of expertise. China's decision-making process shows a degree of openness that is rarely praised in Western circles. And this remark brings me to the last chapter where I deal with the changing aspects of the Chinese political system, by analyzing the present structure of Chinese power and the functioning of the Chinese decision-making process.

# 4 Understanding China after Mao

## Introduction

In introducing this book in the preface, I wrote that after the Cultural Revolution it looked as if in China, state, the party, economy and society (i.e. people) had been disconnected from each other, or worse, that they had been put into a kind of permanent contradiction with each other. This was an extremely dangerous situation that could have drawn the People's Republic of China toward further conflict and disorder, and eventually to a final collapse. To avoid this tragic outcome, it was necessary to reconstruct, and, as history never repeats itself, to reinvent Chinese society, state, and economy; in other words to find the means to reconcile state, market, and society. It was then up to the Chinese leadership to undertake the task of reconstructing Chinese society and to guide the Chinese people toward a brighter future. To what extent has this formidable task been achieved? In the previous chapters I have tried to provide some evidence allowing a reasonable, but well documented, response to this question. There is no doubt that China has gone very far on its journey toward modernization and a prosperous society, at least in terms of overall economic development. But I have also shown that this has been realized at the expense of several negative consequences, such as increasing disparities and a considerable degradation of the environment. In the third chapter I have also presented the various policies that the Chinese leadership has designed (that are also in the process of being implemented) for counter-balancing these negative outcomes. Now, the problem is: how well is the Chinese political system equipped in terms of ideological, economic, societal and political instruments for further improving the life of the Chinese people? And what are the obstacles that may make this task difficult? In trying to answer these questions, we should not forget that for the Chinese leadership modernization is not an end in itself, but a means for restoring China as a world power. Professor He Ping of the University of Sichuan has very well expressed this idea: 'Modernisation, signifying mainly national wealth and power, as well as a vision of a better society and human existence, again became [after the Cultural Revolution] a paramount social agenda'.[1]

In order to answer the abovementioned questions I will first present, as briefly as possible, the model of power I use for this purpose. In the preceding chapters I have already pointed out the theoretical elements of this model. I did this on numerous

occasions, for the purpose of suggesting some keys to interpreting the empirical evidence provided, but this has necessarily been done in a fragmented way. Now I regroup these theoretical elements in a more comprehensive and systematic manner. I will then apply this model to the case of Western liberal democracies, before I use it for China. This sequence is necessary for several reasons. First, as modernization has been historically first experimented with by Western countries, and is now followed in other parts of the world, very often by imitating the West, it is necessary to first understand the institutional answers the West has given to the challenges of modernization. Second, many scholars and more generally many observers of non-Western countries, consider that the latter must adopt the Western model if they want to succeed in their journey toward modernization. We may call this the 'Westernization thesis' more often called 'the convergence thesis'. As I have pointed out on many occasions in the preceding chapters, the realization of this hypothesis is by no means certain. Third, and linked to the previous reasons, the case of China is an interesting one to test the Westernization thesis, as the Chinese leadership has always sustained the idea that China must modernize according to its own characteristics. In other words, modernization may be supported in China by institutional arrangements different from the Western ones. The next question is: taking into consideration the Westernization thesis, are there some obstacles within the Chinese culture that will make modernization difficult, or even impossible.[2] Even if the 'China collapse thesis' is by no means probable in a foreseeable future, I will nevertheless show that there are some features in the Chinese culture that may constitute some important difficulties. To the extent that these obstacles exist in fact, the consequence is that in order to overcome them China will have to find and implement some functional institutional arrangements equivalent to those used by the most successful Western countries. As many Western observers consider that the major Western characteristics; that is, liberal democracy and the 'rule of law', are the necessary institutional arrangements for succeeding in the modernization process, this will lead me to examine the difficult questions of democracy, the rule of law and human rights. The conclusion will be an evaluation of the Chinese way toward a more prosperous society.

## 1 Understanding power in China

The theory of power I present at the beginning of this chapter is based upon the belief that a thorough analysis of any set of policies in any country cannot be understood without a clear theory of power. Therefore, in the framework of this research, my deep conviction is that we cannot understand the transition process from planned to market economy (as well as other fundamental societal changes) without a general framework for the analysis of power.[3] Here we encounter the first and maybe most serious theoretical difficulty of our task, as many different, and in some respects conflicting theories of power exist in Western literature. Discussing these different approaches to power is outside the scope of this book. Instead, I will present my own theory of power, so that the reader will be able to appreciate the adequacy of my framework for the analysis of the Chinese situation. My purpose

here is not to impose unilaterally a point of view, but to allow the reader to accept or reject it on the basis of his or her own theory.

There exist mainly two ways of defining the concept of power: either one tries to classify the various historical environments in which power manifested itself, and the resulting different forms of power, or one tries to first define the core characteristics of this phenomenon that exist in any historical situation. The first solution often results in limping classifications, or else in absurdities, such as the distinction between potential power and real power, or in the juxtaposition of different dimensions or faces of power.[4] I would rather consider that it is not by adding the different aspects of power that one arrives at a satisfactory conception, but by taking into consideration the dialectic totality of these different moments of the structural production and reproduction of power.[5]

Moreover, I rather refer to Max Weber's work.[6] After having defined a comprehensive concept of power ('die Macht') where force is the primary means that is systematically used for obtaining compliance, Weber considers that any type of power tries to legitimate itself. This is because when legitimacy is assured, the use of force becomes useless, and resources can be diverted to the realization of policy objectives with the support of the people. Only in the case of radical opposition, is force used to obtain compliance, but in this case the use of violence is considered to be legitimate by the majority of the people. Weber then defines three types of legitimate power ('die Herreschaft') that are based upon different means, and first of all the socio-psychological relationship between the rulers and the subjects: the respect of tradition (traditional power); the adherence to the extraordinary character of a leader (charismatic power); and the respect of the laws (legal–rational power). Moreover, Weber considers that legitimacy cannot be maintained if the rulers do not dispose of sufficient economic and administrative means for realizing the policies that the people need. Nevertheless, Weber considers that force does not disappear, but remains in the power system as the *ultima ratio* of power. For Weber, power, and the political system in which power manifests itself, is basically a phenomenon of domination.

On the other hand, I have much appreciated a short statement by the French anthropologist Georges Balandier, for whom 'power, as diffuse as it may be, implies a dissymmetry within social relationships'.[7] This does not, of course, mean (in my opinion) that an actor is necessarily lacking any possibility to confront another actor, but that the possibilities of action of the actors are not identical when they are placed in a power-relation. The first problem raised by such a conception is one of identification of the actors having greater action capacity than others, thus allowing them to orient the others' behaviour more than they are oriented by the latter. The second problem is to determine the extent of this capacity and the consequences thereof for the other actors and for the social structure as a whole. Finally, the third problem consists in determining the causes explaining the differences in the action capacity of the different social actors.

### *1.1 A systemic model of power*

The clarifying insights provided by authors such as Weber or Balandier point out the fundamental characteristic of power: the dissymmetry of social power relations. Thus, power implies a social order, which can be interpreted like a hierarchy and for which one must find the causes. To have a dissymmetry, it is reasonable to assume that certain characteristics are not distributed in an egalitarian way between the different social actors. I suggest, as many other authors do, to call these characteristics resources that can be material as well as immaterial. Power can thus be looked at as a social phenomenon which structures society, hereby defining a framework more or less stable inside which the logic or the rationality of the structure orients the actors' behaviour in a number of interactive processes in which they implement different types of resources. More precisely, the means of power are processes taking place within the framework of a given structure, in which, on one hand, the social actors intervene with their resources and, on the other hand, these same processes produce and distribute resources inside the society concerned. The resources that are produced and distributed in the interactive processes constitute the elementary means that can be used within the framework of these same processes in the future. The distribution of resources thus produced, can lead to a change of the structure and/or of the processes. Thus the power of an actor is first limited by the structure that defines his or her theoretical freedom, then by the outcome of the interactive processes and by the distribution of resources realized through these processes that ultimately defines his or her actual freedom. So, the structure practically defines the limits, or the amount of freedom an actor may use in his or her interactions with the other actors. If the distribution of resources is unequal, then the actors will benefit from different amounts of freedom, and consequently they will possess different capacities to behave within the power structure and the interactive processes. Their capacity to obtain the maintenance or the change of the structure will be very different.

Starting from these considerations I propose to summarize the different means of power in Figure 4.1.

In reading Figure 4.1 from left to right, the first column indicates the three power levels that I have identified above. On the structural level, we find the characteristics of the power system endowed with a certain amount of stability over time, and limiting the actors' freedom. This structure more or less defines the rules of the game inside which, on the second level, the interactive processes take place.

From an analytical point of view one can subdivide the structure into sub-structures, each one having its own logic or its own mode of rationality. But, in the perspective of a synthesis, one should find a global logic accounting for the mode of rationality of the overall structure comprising all the sub-structures. I suggest isolating the following five sub-structures that correspond to the concept of functional imperatives of the structural-functionalists; that is, social phenomena without which a society could not exist.[8] One can indeed assume that to survive, a social system must guarantee the reproduction of humankind, allowing it to survive materially, define the formal rules that orient the behaviour of individuals, provide

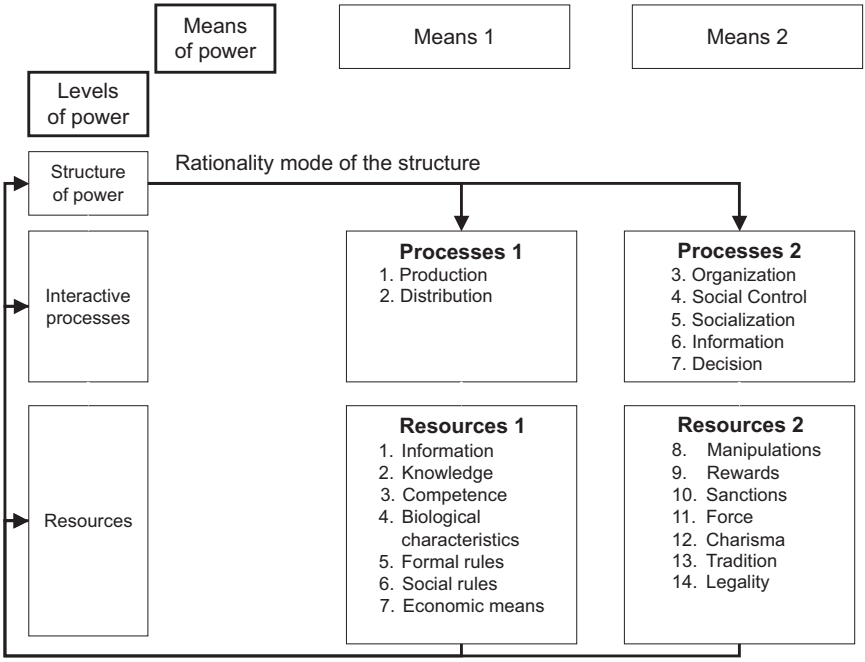


*Figure 4.1* Power: levels and means.

its members with the intellectual means for understanding the world and the society in which they live, and finally assure communication among its members.

Each of these functions is produced by a specific structure. First, the socio-biological structure which assures the reproduction of humankind. Second, the economic structure, assuring the production of goods and services necessary to the survival of humankind, eventually (but not necessarily) to its economic development, thanks to an accumulation process. Third, the structure of norms, that can be subdivided into the structure of formal norms (or law structure), and social norms, including values, beliefs and norms of behaviour. It is at this level where one will be able to situate the political or ideological culture I have spoken of in the first chapter.[9] Finally, the informational structure, assuring the circulation of information inside the social entirety concerned. The latter can be subdivided into the intellectual means of communication (language, symbols, etc.), and the technical support of communication (technical devices like mass media, newspapers, radio, TV, internet). The rationality mode of each of these structures constitutes the framework inside which the interactive processes take place (second level) the essential result of which is the production and the distribution of resources (third level) inside the social system. The result of these processes has – as already mentioned – an impact on the processes and on the structure by confirming or modifying its rationality.

If the abovementioned theory of fundamental functions (i.e. functional imperatives) is correct, then we can formulate two interesting hypotheses: first, that all

questions, conflicts, cooperation (i.e. power relations) will deal with one or several of the sub-structures producing the corresponding fundamental functions; second, that the actor(s) who master these structures will exercise power within the corresponding society (Figure 4.2). Moreover some interesting questions may be asked. For example: How has market economy been introduced in the West? How has planned economy been introduced in the Soviet Union and in China? How is market economy being implemented in China? How are the other structures linked to the market in the West and in China? Are there some functional equivalents? How can power seek legitimacy?

Now, let us go back to Figure 4.1. The second and third columns show the means of power, subdivided into processes and resources of types 1 and 2. The second column shows the elementary means of power. At the interactive processes level, it comprises the production and distribution of elementary resources: first of all, knowledge and competence. I suggest integrating these into one single category: information; that is, the whole of the means at the disposal of individuals and social groups, linked to their perception of the environment and to their capacity to benefit from these resources in power relations with others. Second, there are the social norms. Third, I consider material goods, and finally, biological characteristics. These different resources are produced and distributed among individuals and social groups via the two elementary production and distribution processes.

On the other hand, the production and distribution processes produce and distribute also – as we will see later – the more complex type 2 resources. From this stems the importance of the control over these processes, which leads us to take

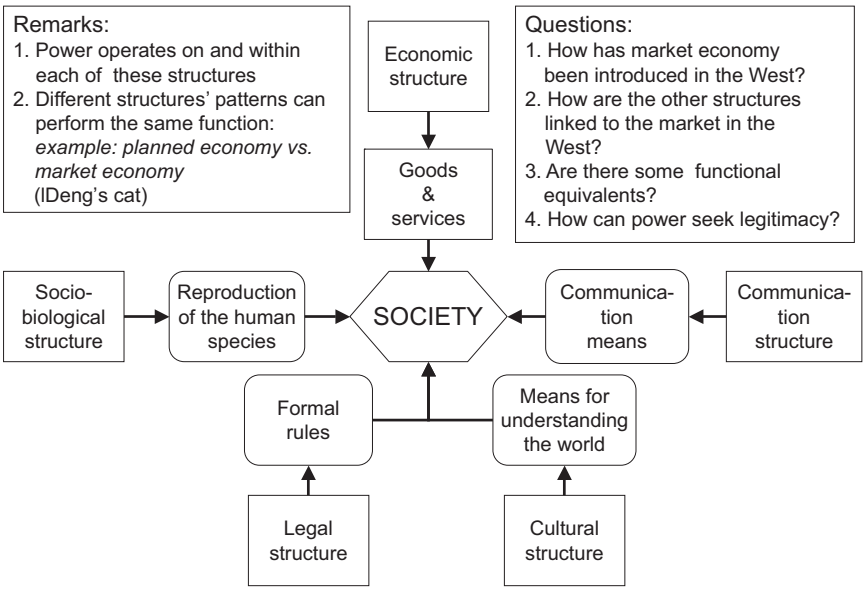


*Figure 4.2* The functional imperatives.

into consideration the type 2 means. These are more complex means implying the implementation of processes that require a combination of type 1 means and result in the production of more complex type 2 resources.

Let me illustrate this with an example. The production process of economic goods can be organized in a simple manner so long as production is totally controlled by one manufacturer (an artisan) or farmer. This was basically the case prior to the industrial revolution.[10] In this case processes of type 2 were practically non-existent or very limited in scope. The artisans in their shops are alone in front of their material and tools, and determine the way they organise their work. But when the industrial revolution, in the search for greater efficiency, organizes the production process on the basis of specialization (i.e. the division of work) the production process is subdivided into its elementary components, each of them assigned to different workers, and some more complex organizational capacity is needed. The implementation of these more complex 'organization means' requires the use of information, of competence, of formal norms guaranteeing a certain type of organization of the production processes, the coordination of the specialized tasks, as well as the use of materials goods, etc. Moreover, in order to effectively support the production process, the organization process (while being submitted to the rationality of the structure, as all the other processes), will have to resort to the process of socialization and legitimization, as well as the other communication, decision and social control processes. But the appeal to the legitimization process (just to limit ourselves to the latter) can only contribute to the organization of the process of production if it can appeal either to the mode of rationality of structure (in this case probably, of the ideological or cultural substructure), or to already available type 1 resources (knowledge, beliefs, etc.) or to type 2 resources (charisma, tradition, legality).

The power system, which I have briefly described above, calls for a certain number of remarks. To begin with, one could follow the suggestion of Wesolowski and rightly distinguish between different control objects exercised by a given social actor: first, the control of the means of production of resources, then the control of the production process itself; and finally the control of the distribution of the product.[11]

Second, one can notice that the state (that is not explicitly mentioned in Figure 4.1) can be considered inside the system as a particular type of organization and, in some cases, as a privileged one. Thus, for instance, according to Weber's theory, it constitutes the political group that successfully claims the monopoly of legitimate violence. More specifically, it holds two resources: violence and legitimacy, which allow it to have its domination accepted without having to use – with the exception of cases of violation of legal norms – physical force. I would like to point out that in the case of a legal–rational legitimate power, the state would also hold the monopoly of the production of formal norms (legal norms) intended to orient (or even determine) the behaviour of all groups and individuals living on its territory. Moreover, thanks to its administration, the state can interfere in the processes of socialization, social control, information, production and distribution of resources.

Third, there is not necessarily an opposition or a contradiction between legitimization and coercion; one could prevail on the other in a more or less clear way. But this does not change anything about the fact that – whatever the relation between legitimization and coercion may be – power is in any case constraining for the social actors. This is true in spite of the fact (and Weber has clearly seen this point) that it is not completely indifferent to the social actors, as well as for the understanding of power, whether power is exercised via the legitimization process or via coercion. In addition, one can note that legitimization and coercion do not only appear as forms of power (legitimate power vs coercive power) but also and above all, as the means of power. Indeed, in order to maintain its power position within society, legitimate power must continuously produce legitimacy (i.e. the feeling among the citizens of an obligation to obey its orders) and use this legitimacy as a resource allowing it to maintain the existing power structure, as well as its implementation within the framework of interactive processes, namely the legislative process.

In a more general way, Figure 4.1 suggests that power, while satisfying the abovementioned functional imperatives, may assume different forms according to the existing combination of structures, interactive processes and resources distribution. This explains the need for discovering, in each historical case, the fundamental characteristics of the power system. Following the conception of power described above, one has to admit that if a society is governed by a power system, a sub-group must exist there which controls most of the means of power (processes and resources) and which, therefore, succeeds in maintaining the rationality of the power structure which guarantees, in a sufficient way, that the interactive processes will not result in a redistribution of resources putting in danger the existing power structure and, consequently, the privileged position of the sub-group which is benefiting from this structure. As there is no theoretical reason forcing us to identify this sub-structure as being the state, it is thus necessary to attribute to this entity a specific stature which differs from the state. Let us call it the 'dominant group'.[12]

The conception presented above suggests that the dominant group must fulfil the functional imperatives mentioned above. Nevertheless, this assertion must not be understood only in the sense of the accomplishment by the dominant group of functional activities that are necessary to the persistence and development of the corresponding society. The assertion must rather be understood in the sense of the persistence of a particular type of structure and functions allowing simultaneously the dominant group to:

1 guarantee the persistence of the society as a human entity opposed to a non-human environment;
2 guarantee the persistence of the social position of the dominant group as such, thus allowing it to accomplish a particular type of function in a particular type of structure that must be safeguarded;
3 persuade society to accept this particular type of structure and function as being the only one (or at least the best one) capable of satisfying the functional imperatives.

In other words, safeguarding of a certain type of power does not only depend on the capacity of the dominant group to satisfy the functional imperatives, as this task is incumbent upon any form of power, but also, and above all, on the capacity of the dominant group to convince the members of the society that the type of social organization which guarantees to the dominant group its position, is at the same time the best form of social organization, capable of satisfying the functional imperatives. The dominant group thus succeeds in proving the indispensable character of its existence.

### *1.2 Power in a liberal democracy and its relevance for China*

The first remark that is necessary to put forward at the beginning of this section is that the liberal theory of democracy considers that market economy and liberal democracy are strictly linked together in what I may call a necessary and indispensable interdependence.[13] It is therefore necessary to briefly explain the origins of the Western model as it stands today in reality and not as it appears in books.[14] Moreover this is also necessary because China has decided to introduce into its society some elements that are clearly borrowed from the Western experience, even if they are implemented with great care so as not to be contradictory with Chinese characteristics. Since the end of the 1970s the Chinese leadership has opted in favour of market economy (or at least market mechanisms) with the clear aim of increasing the performance of the economic system, because the Western experience had proved that market mechanisms were more efficient than the planned economy.[15] Can China benefit from the analysis of the historical process through which the West has adopted a market economy?

The market can be viewed as a set of laws (based upon economic theory) and technical tools and arrangements (based upon theory and practical experience). It is my opinion that this view of the market is not sufficient for the mastering of this very special and demanding way of organizing the production process. This is not the place to dissertate upon how the market economy in the West traces its origins back to Greek philosophy and Roman law, to the reorganization of European society during the Middle Ages, to the role played in the economy, politics, and the legal domain by the Catholic Church and the Protestant Reformation, to the role of the universities and the professions (lawyers, theologians, scientists) and finally to the three major revolutions (scientific, industrial and liberal) that have made it possible to impose this type of economic system as the best means of producing and distributing wealth. In short, it has been a long transformation process involving all the dimensions of society.[16]

Moreover, as the Western states were implementing market economies, the consequences of the Industrial Revolution made the provision of social services a political issue put forward by socialist movements since the beginning of the nineteenth century, and finally adopted (with different means and with different impetus and scope) by all the Western countries. The problems experienced by these countries in the process of developing a market economy has been that the transition from the individual mode of production to mass production, made

possible by the partial mechanization of the production process, and the division of labour (based upon the principles of Taylor's scientific management) have disrupted the traditional social structure, and in spite of the spectacular gain of productivity, they have put large numbers of workers at the mercy of unscrupulous owners and managers. The reaction to this situation, aimed at helping the workers to face the risks of this new type of life (above all, unemployment, low pay, illness, accidents, unhealthy and dangerous working conditions, poor lodging and unhealthy living conditions, and old age) has taken more than a century. A complete system (the 'Welfare State') has been set up, aimed at satisfying these needs. Starting with the first state interventions adopted during the late nineteenth century[17] and the Great Depression of the 1930s, and ending with those leading to the establishment of a complete Welfare State during the second part of the twentieth century, Western states have responded to the needs of the masses by a huge legislative and financial intervention in the social system. At the same time, states have built all kinds of infrastructures necessary to the development of the market economy, as well as an important set of regulations aimed at:

1 limiting some unwanted consequences of the market (e.g. pollution)
2 sustaining the development of a market economy (e.g. counter cyclical policies)
3 protecting the citizens, workers, and consumers (e.g. against false information about the goods sold in the market)
4 limiting (or even forbidding) some commercial practices, contrary to the classical orthodoxy of market economy (e.g. anti-trust legislation).

Of course, all these policies had to be financed by a substantial increase in all sorts of taxation.

It is at the end of this historical process that liberal democracies organized the power structure that could have become a stable institutional arrangement distributing societal functions between state and market. This happened toward the end of the 1970s, more or less at the time of the end of the Chinese Cultural Revolution. Let me analyze this power structure by referring to Figure 4.3 that suggests the principal constitutive power elements for the liberal contemporary Western society with a market economy.[18]

In order not to overload the diagram, I did not add the bio-sociological structure, and the informational structure is represented in the figure as the set of arrows connecting the other parts of the power structure. For the same reasons I have not included the seven interactive processes (presented in Figure 4.1), but only the three economic, legal and ideological–cultural structures, the state organs, as well as the circuits linking these entities to the social actors. Within this structure the state is considered as a place of power, as a producer and distributor of resources, and finally as an actor accomplishing several specific political functions.

Moreover, our concept of power suggests that the dominant group will not be able to retain its position by controlling only one part of the social structure (e.g. the economic sub-structure) but it would have to control all of the power sub-structures.[19] In a society with a market economy, the rationality of the economic

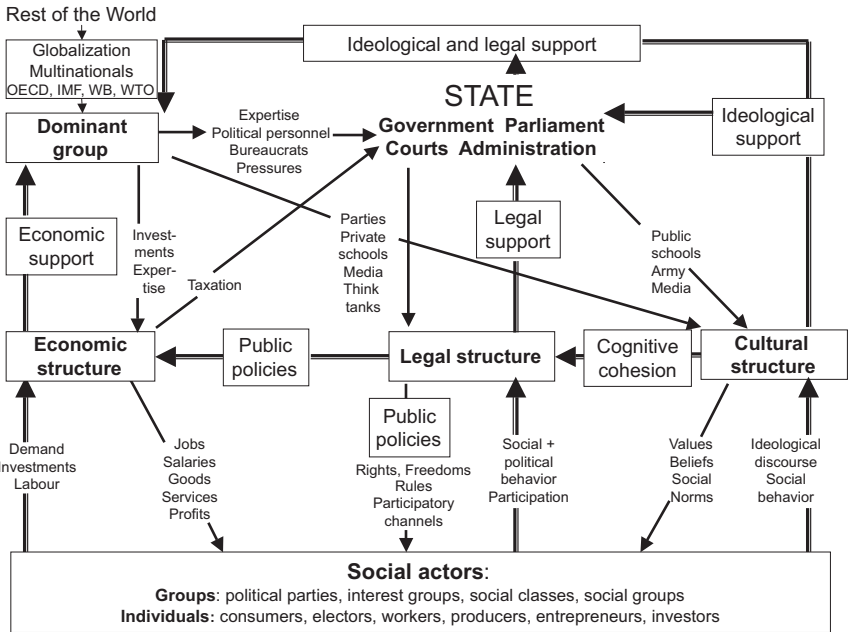


*Figure 4.3* The power structure of a Western democracy.

sub-structure orients the behaviour of social actors in the process of producing goods and services, so that they improve productivity. The ultimate goal is of course material wellbeing, material and physical security, and finally the accomplishment of humankind through these means. This is the first rule of the rationality of the economic structure.[20]

The second rule of the economic structure prescribes that the optimal way for realizing the goals set by the first rule is by means of a market economy. It is also this second rule that constitutes the basis for distributing the additional wealth produced by a market economy. Of course, in a democratic liberal society, where the use of force is not systematic (contrary to what happens in totalitarian regimes) this implies that the social groups and the individuals widely adhere to these basic rules. Thus the necessity for a political culture (or ideology) sustaining the rational and/or emotional adherance to these rules by social actors. On the other hand, this liberal democracy is based on the 'rule of law', one main function of which is to govern individual behaviour, thanks to a set of sanctioned norms. Nevertheless, the content of these norms and the process through which they are adopted and implemented can be very different from one country to another. Moreover, in liberal democracies rule of law means that the laws are above everybody, including those in power (in our terminology: the dominant group). Contrary to this interpretation, rule of law could simply mean ruling by law, which is not at all the same thing.

In any case, the considerations developed in the preceding paragraph suggest the necessity of a certain level of congruence between the rationality of the three

structures, or else, in the opposite case, the emergence of contradictions and ruptures risks endangering the existence of this type of social organization, and as a consequence the position of the dominant group. Thus the necessity for the latter to control the three abovementioned structures, as well as the interactive processes occurring within them, as it is within these processes that the social actors intervene.

The foregoing paragraphs suggest that the dominating group must act so that:

1. the interactive processes within the structures do not result in a redistribution of resources that may endanger its strategic position, even if this redistribution does not affect fundamentally – in any case on a short and medium term – the rationality of the structures (tactical level);
2. the same interactive processes do not directly result in a change of the rationality of the structure (strategic level).

In other words, the interactions taking place within the different structures between the social actors must reinforce the corresponding structures and their rationality. In Figure 4.3 I have represented these interactions with arrows, some of which I will now briefly comment on.

Given the rules of the rationality of the economic structure, the dominant group must through this means offer the social actors jobs, salaries, purchasing power (very likely increasing in real terms), accessible products and services (i.e. that can be purchased by a demand which has become solvent through the distribution of income), investment and profit opportunities. Thanks to state intervention, the economy will be able to offer favourable general conditions to the development of the market economy, as for example the supply of infrastructures, or measures taken to reduce the cost of production factors.[21] In return, the economic system will receive investments, labour, and will be solicited by a solvent demand.

In a liberal democracy economic activities do not happen in isolation, they are governed (sustained, but also limited) by a set of norms, which constitute the legal structure, for the production of which the state has more or less the monopoly. Thus the necessity for the dominant group to control the legal structure by means of controlling the state institutions. This control may comprise different non-exclusive forms: direct supply of political or administrative personnel, supply of information and expertise, exercise of influence or pressure on the state organs.

The legal structure does not only contribute to governing the interactive processes of the economy. One can indeed consider that it governs its own circuit: on the one hand it supplies to the social actors rights and duties, freedoms, political rights, possibilities for appeal, behavioural norms, guaranties (among which that of private property is particularly important, given the rationality of the economic structure), channels for individual and group participation (such as electoral processes) and for groups (such as the different techniques for consulting interest groups). In return the legal structure receives from the social actors behaviours in line with an effective use of laws, especially the laws organising the participation of citizens in the electoral process, and in a more general way in the process of

transmission of demands by citizens to public authorities. On its side, the state implements a number of legal norms allowing it the use of the violence monopoly that it holds in case the rules of the legal structure are violated.[22]

Finally, the control of the cultural–ideological structure should allow the dominating group to socialize the different social actors, to transmit to them the behavioural norms, values, fundamental beliefs, social representations – in short, to provide them with the intellectual means for understanding the society inside which they evolve, and to finally adhere to the existing social order. This, of course, corresponds to the idea of legitimization of the established order, in the Weberian sense of the term. One has to notice here that – contrary to the production of legal norms, of which the state owns practically the monopoly — the cultural structure is not entirely submitted to state control. Consequently, one can envisage, from the dominant group's point of view, two types of control of the cultural structure and of the interactive processes which it governs: indirect and direct. Indirectly the dominant group can produce and transmit a political culture favourable to it, through certain state institutions: schools, army, and certain state mass media (e.g. television). The direct control can be done either through private schools controlled and/or subsidized by the dominant group, or by different mass media that the dominant group owns or controls. In return, the cultural structure receives, through the social actors, behaviours matching its own rules and also, and above all, social actors transmit and diffuse an ideological discourse matching the political dominant culture.

I have also identified three retroactive loops of reinforcement or support of the existing structures and of the position of the dominant group: the loops of economic support, of legal support, and the one of ideological support. However, this way of presenting reality is somehow artificial in the sense that – in proceeding by analysis – I have separated what is not separated in reality. First, one can note that some loops can hardly be classified in a univocal way in one type of loop. Thus, for instance, the supplying of social insurances through the state can be included at the same time in the economic loop, as a state contribution to the stabilization of the labour market; in the legal loop, as the supply of services guaranteed by the state's laws to individuals in difficult situations – sickness, unemployment, etc.; or, in the ideological (cultural) loop, as services supplied to some social actors in order to obtain their adhesion to a system of social organization, which, by the way, does not have much else to offer them.

On the other hand, society must be organized in as coherent a way as possible, which suggests the idea of a systemic coherence between the rules of the rationality of the three structures: economy, law, and ideology. I do not speak of a perfect coherence, but of a coherence which is relative to the fundamental rules of the rationality of the structures. If such a coherence was not assured, one can forecast that the whole system would collapse in the long run, or would at least be subject to long periods of tensions and social conflicts, the issue of which could be either the confirmation of the structure of the existing power (with a probable reinforcement of the processes of social control of the coercive type) or the overthrowing of the existing system and its replacement by another one, the fundamental characteristics

of which it is difficult – in the absence of any precise historical reference – to foresee.

Whatever the situation may be, I suggest considering two types of systemic coherence: on one side, a material coherence that must assure, in the framework of the chosen example of a liberal democracy with a market economy, the non-contradiction of state functions with the rules of rationality of the economic structure. Moreover, one can even envisage a state intervention in order to favour and safeguard the functioning of the market economy. On the other side, I suggest considering a cognitive coherence (rational and/or affective) between economic structure, law structure and the state, guaranteed through political culture or ideology. In other words, it is not enough to avoid material contradictions between law production of the state on one hand, and the principles of the market economy on the other; it is also necessary that the social actors regard society as a fundamental coherent entity which is sufficiently adapted to everybody's needs.

One can then conclude that the rules of the rationality of the structure as well as the degree of material and cognitive coherence of the power system constitute more or less the operational code of the corresponding society, somewhat similar to the set of fundamental beliefs that constitutes the operational code of the individual.[23] In such a way, the operational code of a society constitutes the framework in which interactive processes, that I have analytically subdivided into economic, legal, and ideological process, will take place.[24] To the extent that the dominant group does not succeed in totally controlling these processes, some economic and legal resources will be acquired by some other social actors. If moreover the latter succeed in developing and diffusing their own political culture, they will be in a position to escape from the influence of the dominant group. Finally, having consolidated their resource system, finalized a strategy and being able to take advantage of favourable events and circumstances, they could either erode step by step the power position of the dominant group, or knock it down by a revolutionary short-term movement.

Let me now take you back to the situation that prevailed in the West at the end of the 1970s that I presented above. Within the power structure that prevailed at that time, one of the outcomes of the functions devolved to the state (supporting the market, and at the same time limiting some of the unwanted consequences of the economy) was an impressive increase of wealth (measured by GDP) as well as the average personal income (in spite of disparities between states, regions and individuals). But on the other hand, toward the end of the 1970s, the expenses necessary for financing the state's interventions could no longer be balanced by an additional increase of taxation. Moreover, the prevailing opinion of both the most influential politicians and intellectuals very firmly sustained that it was no longer possible to increase taxation without hampering the good functioning of the market economy.[25] Huge structural annual deficits appeared, and contributed to a massive increase of public debt.

Indeed, it is at this time that neo-conservative economists and political scientists (or neo-liberals, in the usual European continental terminology) were able to come

out in the open, proposing their cure to the state's illnesses, known as the New Public Management (NPM).[26] In short, it was proposed to reduce the state's size, by privatizing and/or contracting out state's activities, with the consequence of reducing the state's burden, and thereby reducing the level of taxation. This in turn would free the economy, by using the money not taken by the state to stimulate economic growth. Finally, it is said that this new impetus would benefit the entire society.[27]

As a consequence, practically all of the Organisation for Economic Cooperation and Development (OECD) states have adopted a strategy that, with different scopes and impetus, is based upon the prescriptions of NPM. During this period, and in fact up to the 2008–9 financial and economic crisis, it was the turn of the defenders of the Welfare State, and more generally of State intervention in the economy and society, to be on the defensive, and with practically little chance of being heard. It is only recently that several scholars have pointed out the negative consequences of the implementation of NPM prescriptions.[28] This might be of some interest to Chinese decision-makers, as a careful examination of some of the trends launched by the reform process in China shows that they have some similarities with the NPM prescriptions; it is enough to mention the privatization of part of the Chinese economy,[29] of the education and health systems (that I have dealt with in the third chapter), the introduction of some of the human resource management practices similar to those of the NPM, etc.

In this respect, it is important to remember that NPM was introduced in the West at a time when its society was being organized in a fundamentally different way, compared to China, and when the general standard of living of Western people was considerably higher than in China. It is therefore necessary to examine with great care the possibility of transposing to China the same NPM-type reforms.[30] Moreover, it is necessary to take into consideration the long history of Chinese reforms (started at the end of the 1970s) and to evaluate the actual consequences of these reforms on Chinese society. I have done this in the second part of chapter 2, when I presented the negative consequences of China's reform process until it was mainly driven by economic considerations based upon the improvement of wealth measured by GDP. These are mainly the huge disparities between provinces and within provinces, between rural and urban areas, between physical and human capital, as well as the emergence of new forms of poverty. In chapter 3 I have pointed out the formidable challenges that this situation represents for the Chinese leadership as well as the new policies that it has been necessary to design and implement to counter-balance the negative outcomes of this type of economic development. Finally, even if the Chinese leadership has at last definitely opted for a developmental strategy that places 'people first', we measure the long way that it is still necessary to go to achieve, at the end of the journey, the prosperous and harmonious society the Chinese leaders have promised to bring about.

Coming back to the West, it is undeniable that by succeeding in combining the market economy and liberal democracy during their long historical process, Western countries have been able to develop a special type of relationship between market and the State that has made it possible for the market economy to develop, in spite of numerous economic and political crises, of which, the one that

is developing in the banking sector at the moment of revising this last chapter, is certainly the sign that not everything is going well in that part of the world.

This is not to say that a market economy implemented in another part of the world and in another era will necessarily need to be sustained by the same type of State, and the same type of relationships connecting State, legal system, and economy, as has been the case for Europe. I just want to suggest that it would be foolish not to take advantage of learning something useful from the success, but also from some of the dramatic failures, that have characterized the long history of market economies in the West, last but not least the 2008–9 financial and economic crisis.

Moreover, it is certainly legitimate to explore the possibility of discovering (and eventually of experimenting with) some other ways of organizing these relationships. I am asking at this point this fundamental question: are there in the Chinese society and culture some 'functional equivalents' to the Western way of organising the interface between market and society, between market and politics?[31] I will come back to this important question.

## *1.3 Power in the People's Republic of China*

### *1.3.1 Some general premises*

Applying the framework of analysis presented in the previous sections for the understanding of the Chinese political system and society is not an easy task. Nevertheless this is what I will try to do in the following parts of this chapter. Here it suffices to briefly develop four preliminary considerations. First, it seems reasonable to use the basic structure of our model for China, as I have made the assumption that the five sub-structures hold for any type of society. Nevertheless, it will be necessary first to define the mode of rationality of these structures in the Chinese post-1978 context, then to determine to what extent they are being changed by the reform process, and finally whether they are linked by a sufficient level of material and cognitive coherence. The same will hold for the State and the policies implemented by it.

Second, it will be necessary to define the various links (represented by the arrows in Figure 4.3) between the State and the sub-structures; in other words to determine the content, scope, and impact of the interaction processes. These two points will be used to determine to what extent the introduction of market mechanisms is supported by the other parts (structures and interactive processes) of society.

Third, the above two points will be completed by taking into consideration the role of the CPC, which I will consider as the dominant group in China since 1949. Nevertheless, this assumption will be tested against the changes introduced in the functioning of the political system, in particular the relationship between the CPC and the government, as well as with official and non-official think tanks and universities as sources of innovation for the Chinese leadership.[32]

Fourth, one of the important questions to be answered will be the question of the legitimacy of the present power structure. Figure 4.4 summarizes the major

dimensions of this question. The assumption generally admitted by Western scholars is that after the Mao Era (when legitimacy was mainly based on charisma) and the considerable damage that the Cultural Revolution did to the image of the CPC, the strategy adopted by Deng consisted in providing the Chinese people with a better standard of living by progressively introducing market mechanisms in the Chinese economy.[33] The satisfaction of the economic needs of the people should restore the confidence in the CPC and thus its legitimacy as the dominant group in Chinese society.

To complete this assumption many Western scholars formulate the complementary hypothesis that the introduction of market mechanisms will put some heavy pressure on China for the introduction of a political system similar to the Western one, or at least to adopt a legal system based upon the rule of law. This pressure would come both from within (because of the need of supporting the emerging internal market) and from abroad (because of the need of integrating China into the global economy, especially after its accession to the WTO). The subsequent question is whether the Chinese leadership and the Chinese society (namely its fundamental social values) are guiding the Chinese political system in this direction. In case of a negative response, one could forecast some serious difficulties on the road to implementing an effective and efficient market economy, or, one could formulate an alternative hypothesis, according to which the Chinese leadership will be able to set up some 'functional equivalent' to the Western model, especially to the rule of law, supporting the market economy with the same effectiveness the rule of law has done in the West.

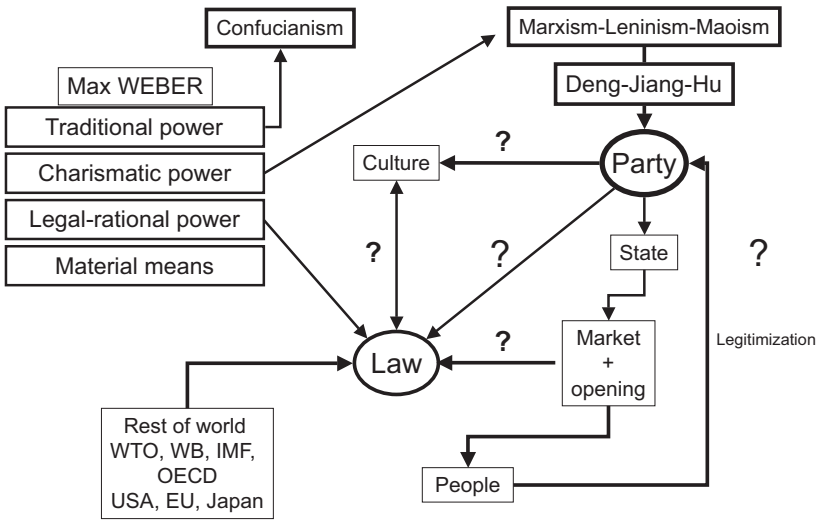


*Figure 4.4* Legitimizing power in China.

Referring to Figures 4.1, 4.2, and 4.3, and applying them to China, we can first confirm what I have already put forward; that is, that the CPC constitutes the dominant group within Chinese society throughout the life of the PRC from Mao to the present. This is true in spite of the numerous changes that have occurred within Chinese society and the political system. I will come back to this point later in this chapter. For the moment it suffices to say that, in addition to the analysis of Western scholars that points to the strong (and for many the authoritarian) power of the CPC, the Party itself, and its most prominent leaders, publicly confirm this statement.[34] In the process of introducing the market mechanism, the Party has taken, implemented, and monitored all the decisions. Of course, decisions have been adopted by the Chinese parliament at the meetings following the Party congresses where these policy options have been first taken. After formal parliamentary adoption, policies have been implemented by the government and its administration under the Party's supervision and control. We have seen in chapter 1 that there is a remarkable symbiosis between Party and government. This is why many Western scholars qualify the Chinese regime as a Party–State. In short, the Party still controls the economic, legal, and cultural structures of the power system. But, as in the case of Western liberal democracies, the relationship between the Party–State and the people is by no means a one-way one, in which the Party–State gives orders for the benefit of a small elite. Already since the Mao era, the goal of the Party–State has been to restore China's power and to provide the Chinese people with better living conditions, the two objectives being strictly linked to each other in a two-way causal relationship. That has been obtained already during the Mao era, although with limited results that moreover have been overshadowed by the mistakes of the Great Leap Forward and, even more, of the Cultural Revolution. In this perspective, Deng's choice in favour of market mechanisms is strictly in line with the objectives of Mao's strategy. Only the means change.

Of course, by introducing market mechanisms within its economy, China has automatically given more freedom to the people in this domain. The consequences have been the emergence of professional associations, which are not really a novelty for China as similar organizations already existed under the Imperial regime and during the first half of the twentieth century.[35] Moreover, mass organizations such as the trade unions and the All-China Women's Federation have developed many activities that are linked to the changes in Chinese society after the introduction of market mechanisms. For example, following the increasing number of divorces that are, at least financially, more harmful to women, and following the emergence of unemployment (that touches more women than men) the All-China Women's Federation (which has branches all over China) has implemented a variety of activities aimed at helping women that suffer from the consequence of divorce and/or unemployment. These activities concern legal support for obtaining alimony, and for obtaining new competencies through training in all domains of economic activities from the most modest ones to those requiring university training. The activities of this type of association can bring to the attention of the Chinese leadership problems and solutions that it has not thought of by itself. That

other changes in this direction are under way, is seen in the increasing number of non-government and non-profit organizations.[36]

But the more important question is: what are the benefits of the reforms for the Chinese people, and do these changes meet the approval and support of the majority of the Chinese people? In chapters 2 and 3 I have provided some evidence that remarkable improvement in the standard of living of the Chinese people has been realized, especially after the reform started in the 1980s. The economic development achieved by China, thanks to the reforms introduced by Deng Xiaoping since 1978, is quite impressive. In the second and third chapters I have mentioned that the World Bank has recognized on several occasions the remarkable progress achieved in all economic, social and environmental domains; the Bank even pointed out the formidable challenges that face the Chinese leadership today. In chapters 2 and 3 I have also pointed to the negative consequences of economic development as has been conceived of and managed during the two first decades of the reform era: disparities between provinces and within provinces, especially between urban and rural areas; and different kinds of pollution of the physical environment, with dramatic consequences for public health. I have also pointed to the new policies conceived and in part implemented by the Chinese leadership since the mid-1990s for correcting these negative consequences.

What are the reactions of the Chinese population? Official records show an increasing number of protest movements throughout the country, mainly due to the negative consequences of economic development and the difficulties the Chinese leadership has to fight against illegal and immoral behaviour on the part of those who ruthlessly profit from the opportunities (i.e. more freedom) offered by the reforms and by the difficulties of managing the transition process. Examples include corruption, illegal sale of land to real estate promoters and consequent destruction of old habitations and the displacement of the tenants, non-payment of wages to migrant workers, etc. In spite of these problems, which the Party–State is taking very seriously today, the majority of the Chinese people seem to support the development strategy set up by the Party–State. There are not the vast protest movements throughout the country that many naïve Western observers have predicted during the whole life of the PRC, basing their forecast mainly on the concept of freedom that is dominant in the West: freedom in the polity first, and then in the economy, in this order. It seems that the Chinese idea of freedom places economic development first as a means of giving the people the chance of becoming free from poverty, hunger, and ignorance. This choice has consistently been followed by the Chinese leadership. The recent change of the development strategy (to which I referred in the third chapter) is the last manifestation of this strategic choice: give to the people the standard of living that frees them from poverty (economic development) and from the hazards of life in a competitive economic system (unemployment, health, and old age insurances).

Nevertheless, some of the features of the organization of Chinese society seem to constitute serious obstacles to the further development of the wellbeing of the Chinese people. Some scholars, both in China and in the West, have pointed out these difficulties since the mid 1990s. Most of the time these obstacles are found in

the weaknesses of the economy (and more especially in the financial sector) or in the political system which is (according to the majority of Western scholars) non-democratic. And this today explains, and will explain even more so tomorrow, the incapacity of the Chinese leadership to fully satisfy the expectations of the Chinese people. I have showed in this book, and I have just summarized in the preceding paragraphs, that this is not the conclusion of my research, even though I concede that much more progress has to be made. The obstacles and difficulties I wish to refer to in the following section are more particularly linked to some cultural traits inherited from the Imperial past and that are still today operating within Chinese society, especially at the top level.

### *1.4 The road to a market economy and its difficulties*

As I have mentioned more than once, analyzing China's reform process, its historical, ideological, and scientific premises, as well as its major features in its present situation (not to mention what the process will be in the future) is not an easy task. A lot has been written about these phenomena, and the literature abounds in catastrophic prophecies as well as in over-enthusiastic apologies. My purpose is less pretentious and less prophetic. For the sake of assuming a realistic perspective, I will focus on the conditions of Chinese society (some of which are not favourable) in which the reform process is taking place, as well as on the major obstacles on the road to a market economy. Having said that, it is clear in my mind that the considerations I will develop in the following paragraphs, some of which might seem rather critical, should be taken by my Chinese readers as my expression of the interest, concern, and sympathy I have for this great people and civilization. To quote the Western proverb (but I am sure that there must be a similar one in China): 'You have to be cruel to be kind …'

#### *1.4.1 The weaknesses of the legal system*

By commenting upon Figure 2.1 in chapter 2 I have analyzed the difficulties facing the Chinese leadership resulting from Deng's development strategy. Here I will comment on the additional difficulties linked to the Chinese culture, starting with those concerning the legal system. This is, according to the overwhelming majority of Western scholars, one of the major weaknesses of the Chinese political and administrative system.[37] I refer here to one of the most complex problems of mastering a market economy in China, as it is deeply embedded in some of the features of the Chinese culture, of which I will speak in the next paragraph.

First of all, it is necessary to point out that the Chinese tradition in this domain is quite different from the Western one, where behaviour based upon interpersonal relationships prevails over behaviour oriented by formal rules (laws and regulations). Since the political liberal revolution of the end of the eighteenth century and all through the first part of the nineteenth century, the idea of a legal structure to which all the people, including those in power, are subordinated, has been widely accepted by all political families. Separation of powers, checks and balances,

multiple party systems, and freedom (sanctioned by constitution and laws) for all sorts of interests to organize (interest groups), representing autonomously (i.e. without any state interference) the various segments of the social structure, have become fundamental features of the Western system of government.

The major features of Chinese culture that make it difficult to set up a legal system based upon the rule of law are summarized in Figure 4.5. It is true that under pressure from the policy of opening up to the outside world, and even more after the entrance into the WTO, China has embarked upon a process of completely redesigning its legal system, either by amending the existing legislation or by passing an impressive amount of new laws and regulations. But the road which leads from the 'rule *by* law' to the 'rule *of* law' is still a long one.[38]

The result is that the legal norms are too often undetermined and subject to interpretation, most of the time by political interferences, at least for important aspects of the management of the legal norm, from its preparation to its adoption and implementation. This may be one of the sources of difficulties for giving impetus to the private sector (both Chinese and foreign enterprises) as one of the major imperatives of a market economy is that law, government, and administrative behaviour should be as predictable as possible.

### *1.4.2 Chinese culture and market economy*

Figures 4.6 to 4.10 summarize the main features of Chinese culture that seem to constitute an obstacle to the development of a market economy. In the last part of this section I will examine, with the help of the writings of a Chinese scholar,

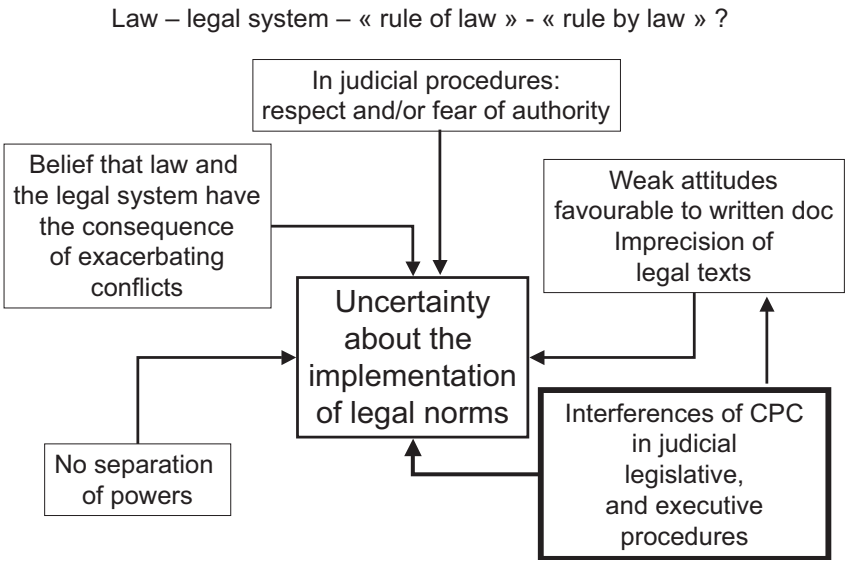


*Figure 4.5* The problems of the legal system.

whether Chinese culture can provide a substitute (a 'functional equivalent') to the features that coexist, and in fact support, the development of market economies in Western countries. First of all, what strikes the Western observer of Chinese culture is the propensity for what someone has called 'the cult of secrecy', which has the consequence of making the functioning of the whole system rather opaque; that is, contrary to one of the requirements of a sound market economy: transparency (Figure 4.6).

Some of my Chinese friends have pointed out that this might be the case for a Westerner observing the functioning of Chinese society, but that Chinese people are quite aware of what is going on. Granted, but it remains that dealing in a global economy, especially when one wants to have commercial intercourse on that global market (selling and buying), and when one wants to attract foreign investments from that same global market, it seems that the economic game in that market should be played according to its rules. It is, in my opinion, a simple question of rational and efficient behaviour, and not a question of defending one's own cultural difference. Moreover, as I have pointed out before, it is in part this lack of transparency that constitutes a serious obstacle to the development of an efficient financial market.

The second cultural feature is the preference for practice and techniques as opposed to theoretical thinking (summarized in Figure 4.7). It is well known that Chinese scholars have made enormous progress since the beginning of the twentieth century, when several universities were created. And in the natural sciences Chinese scholars are second to no one in the world. Nevertheless, one can have some doubts whether this trend has touched the economic and social sciences as well. No doubt, many Chinese economists (and I personally know some of them) are quite competent. But it seems that, at least until recently, they have had some difficulties in being heard by the political leadership.

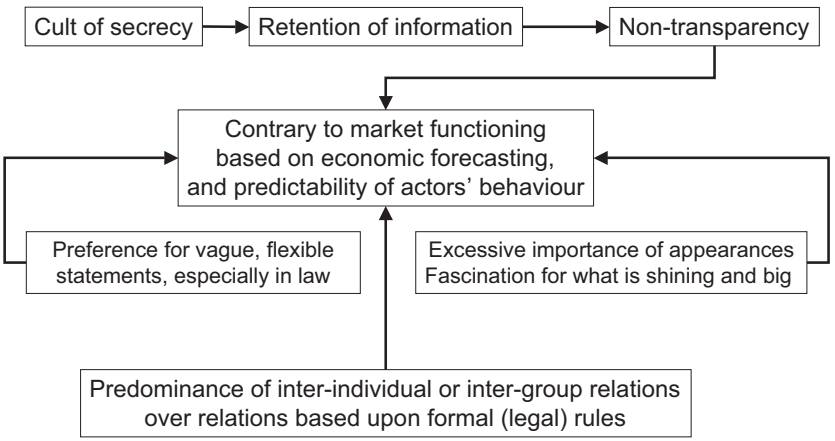


*Figure 4.6* The problems of the cultural structure: the cult of secrecy.

The case of social scientists is even more dramatic. True, even in the West, people in power have often regarded the social scientists with some suspicion. After all, it is the duty of their science to discover what works and, more disturbing for the people in power, what does not work in our societies. Nevertheless, it is true that economists and, to a lesser extent, social scientists have been (and are still) able to provide expertise to the people in power, express their findings and opinions in the open, and be heard by the policy-makers.

Moreover, it seems that in the domain of economics and social sciences there has been an import of foreign ideas (or more precisely of foreign ideologies, even if they have been adapted to the Chinese condition) and that the practical arrangements (laws, regulations, administrative decisions) deriving from those ideas (or ideologies) have been implemented without thorough scientific scrutiny. This is maybe one of the reasons that explain the poor management of the time factor when implementing these ideas. It is necessary here to refer to the adoption of a Soviet-type command economy; to the Great Leap Forward (see Figure 4.9), and to the strategy of economic development adopted at the end of the 1970s, that is clearly based upon an interpretation of parts of the classical liberal market economy. At that time, the negative consequences of a market economy were well known in Western literature, especially in the mainstream of welfare economics, and in the writings of those favourable to the establishment and development of the Welfare State. It is surprising that it is only 15 to 20 years after the beginning of the reform process that these negative consequences have been publicly recognized by the Chinese leadership, alerted, it must be remembered, by some of the most skilful and imaginative Chinese scholars, as I explained in section 1.1 of the third chapter.

But the facts are here: as I have shown in chapter 2, there have been several

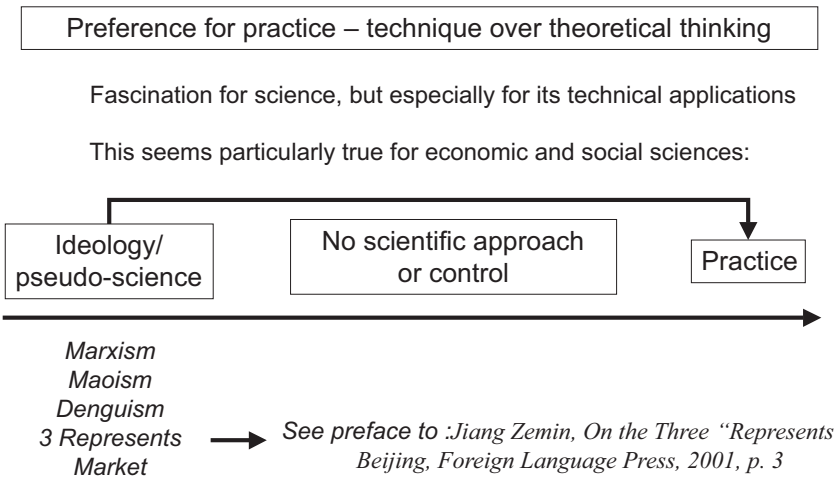


*Figure 4.7* The problems of the cultural structure: the preference for practice.

important negative consequences of the development of the economic system based upon a market economy and opening up to the world economy. These difficulties and problems must now be tackled, at a time when pressures from both within Chinese society and abroad are quite compelling.

To overcome these problems, the Chinese leadership seems to count on another cultural feature: the sense of cultural superiority, based upon a very long history, and the faith in the political genius of the Chinese people (see Figure 4.8). This, combined with the obsession for unity (also a cultural trait coming from that long history) leads to an obsession for political and social stability, and this in turn leads to little tolerance for the formation of autonomous social organizations, as they are interpreted as a menace to the leadership of the CPC. Moreover, the CPC seems to want to control all kinds of organizations (e.g. trade unions, and women's organizations), and I have already pointed to the will of the CPC to interfere with all the stages of the legislative process (management of the legal norms).

In this context it is interesting to note that in the West the existence of different sources of power, and the tolerance for the expression of different opinions in the open (for or against the actions of those in power) has submitted the leadership to a type of control that most of the time has permitted it to avoid making mistakes, or at least to be able to correct them in time. There have been of course some remarkable exceptions, the most recent being the 2008–9 financial and economic crisis, that for many observers seems to have put a new and extraordinary pressure on the Western political and economic system. And this may lead to a substantial restructuring of the whole system, and for some even to its collapse. Although the history of capitalism has shown that liberal democracy has been capable of overcoming a crisis and re-emerging with renewed strength and faith in its superiority,

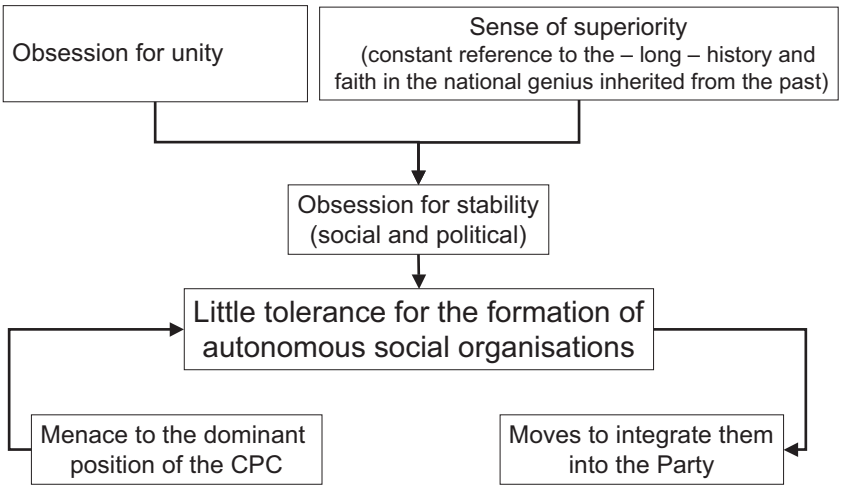


*Figure 4.8* The problems of the cultural structure: obsession for unity and the sense of superiority.

one cannot exclude that this crisis will contribute to reinforcing the faith that the Chinese leadership has in its political genius and to persistence in the line defined by Deng and redefined by Hu Jintao. Prospects for convergence between the West and China will be then bound to vanish for a long time.

Another cultural feature further reinforces the abovementioned ones; namely the obsession for power and prestige, both domestically and internationally (see Figure 4.9). This seems to be linked to the preference for grandiose projects that may rapidly produce spectacular results: again the Great Leap Forward, but also the establishment of the Special Economic Zones, the will to accelerate economic development, and the desire to rapidly restore China as one of the major world powers. We have already seen in section 3 of the second chapter the consequences (positive and negative) of this strategy. Moreover, Deng's strategy in favour of rapid economic development giving priority to the coastal provinces, where factors capable of boosting economic development were significantly more favourable than in the inner and western regions, seems to be in line with the liberal motto: 'You must first create wealth before you can distribute it.' Quite clearly, as the Western experience has shown before China, creating wealth for some does not necessarily mean that the wealth so created will be equitably distributed within the whole of society. Huge disparities have developed in the West in spite of an extraordinary increase of wealth (measured by GDP). As I have shown in section 3.3 of the second chapter, China is now experiencing the same type of problems.

The implementations of the development strategy, its positive consequences, but also the negative ones, raise the fundamental question of the legitimacy of the existing power structure, as I have already pointed to (see Figure 4.4, page 172 and Figure 4.10, page 181). It is difficult for a Western observer not to suggest the legitimizing strategy used in our countries to gain support from the people in a society where the increase of wealth has gone hand in hand with the development of information, skills, and knowledge available to the masses, so that they can have their say in the management of society. But of course this would be an ethnocentric statement, that would not take into account the capacity of the CPC (probably the only force capable of guiding the country toward modernity and prosperity, while maintaining political stability) to address these challenges with solutions that will have Chinese characteristics. Here I pose again the question of the existence of 'Chinese functional equivalents' to the way Western states sustain the development of the market economy, and drive the attention of the Chinese reader to the fact that the 'Western Way' has, since the 1980s, left an increasing number of people with little or no benefits.

In short, the main obstacles to the improvement of the market (or of the market mechanisms) can be summarized as follows. The various interferences by the Party within the political process (that can be characterized as being politically excessive, and technically insufficient) reinforce some of the traditional features of the way of organizing society and polity, such as the imprecision and insufficiency of the legal norm (this being linked to the lack of transparency and to the weaknesses of the financial markets) and to the bad management and insolvency of the banks (already feeble because of technical inefficiencies, as I have explained in

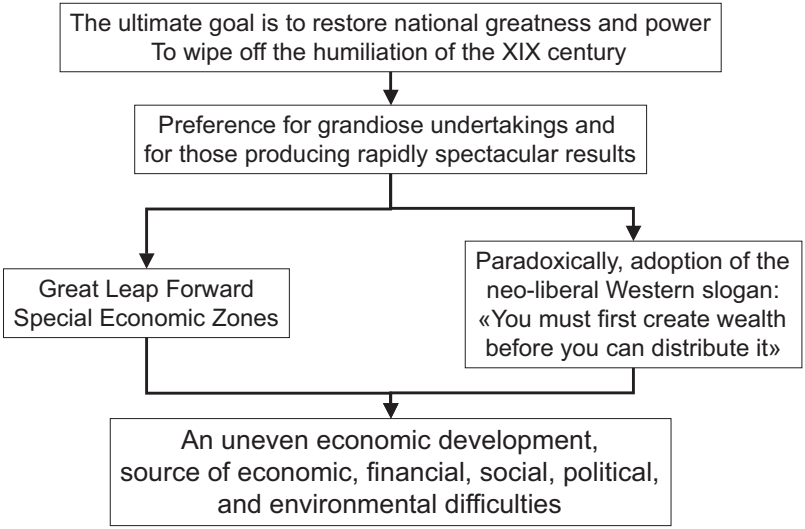


*Figure 4.9* The problems of the cultural structure: the obsession for power, internally and externally.

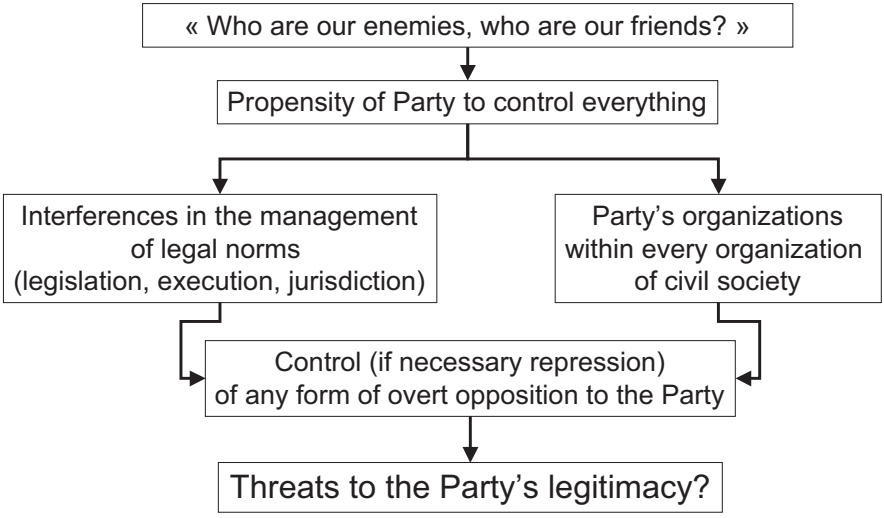


*Figure 4.10* The problems of the cultural structure: obsession for power, internally.

chapter 3) and to the poor performance of the SOEs. Furthermore, this contributes to the weak fiscal capacity of the central state. Moreover the fragmentation of the internal market is an additional negative impact on the overall performance of the economy. The other traditional elements of Chinese culture may also divert the Party–State from its main role of developing the economy as a means to improve the standard of living of the population and restore China as a world power. Of course, this does not mean that remarkable achievements have not been obtained, nor that China will necessarily organize its economy, society and polity according to the Western model. And this last remark leads me to the last part of this chapter; that is, the Chinese search for functional equivalents.

## 2 In search of functional equivalents: is there a Chinese way?

Bearing in mind the cultural difficulties presented in the previous section, I will introduce the last section of this chapter by briefly referring to the stimulating book of a Chinese scholar of the Social Science Division of Hong Kong University of Science and Technology.[39] Comparing the failure of the Soviet Union to introduce market mechanisms within a planned economy to the success of the Chinese strategy since the beginning of the 1980s, Lin finds that 'these changes have taken place without the overhaul of the political system'. Moreover, these transformations 'have been accompanied by a significant growth of political corruption and, relatedly, rent-seeking activities'.[40] With the aim of explaining these apparently contradictory phenomena, 'Lin traces the decline of central planning to the interplay between two emerging markets: an economic market for the exchange of products and resources, and a political market for the diversion to private interests of state authority and assets. He argues that the two markets have been mutually accommodating', and 'also suggests, in contrast with some views, that the expansion of concrete markets for products and resources does not necessarily signify the ascendance of "the market", nor does it bear a linear relation with the rise of a legal-rational state'.[41]

Figure 4.11 summarizes Lin's theory and findings. In short, there are two markets:[42]

1 'an economic market where the exchange of goods, services, and resources takes place between economic actors';
2 a political market, which in fact is subdivided into 2 markets:
   2.1. 'a political market where exchange takes place between economic actors and state agents', and
   2.2. a political market where exchange takes places 'among state agents themselves with regard to the use of state authority and assets.'

Lin further considers that the concurrent rise of these markets in the reform era 'represents … an essential feature of China's transforming economic and political institutions'.[43]

These markets have the following consequences and functions: first, in the political market 2.1, 'the exchange relations between economic actors and those

involving state agents are mutually inducing and accommodating. Exchanging favours with state agents helps reduce regulatory and resource constraints on favour seekers and thereby enhances their ability to enter and compete in the growing economic space outside the plan.'; second, the political market 2.2 'has weakened mutual monitoring […] and has facilitated the growth of exchange relations in the political process'; and third, competition among economic actors for favours from the state has reduced 'entrenched barriers to economic freedom and growth. It also limits the preferential treatment of firms, forcing them to look beyond special favours for ways to compete on economic grounds while exploring additional areas for rule bending.'[44]

Nevertheless, Lin admits that there are also some unfavourable consequences of this institutional arrangement for the development of the market, as it contributes 'to an overbuilding of production capacities, and creates growing pockets of slack in under-performing enterprises'. More important for the efficient use of public resources: 'it also stimulates state agents' attempts to increase the diversion of public resources [i.e. corruption], which consequently drains the state's capacity to provide goods and services'.[45]

### *2.1 The opening up of the political system*

The opening up of the Chinese political system was inevitable if the process of modernization was to succeed. As I have pointed out in chapter 1, the process of modernization implies the availability and use of technical competences that exceed by far ideological values. Mao managed Chinese society and polity through

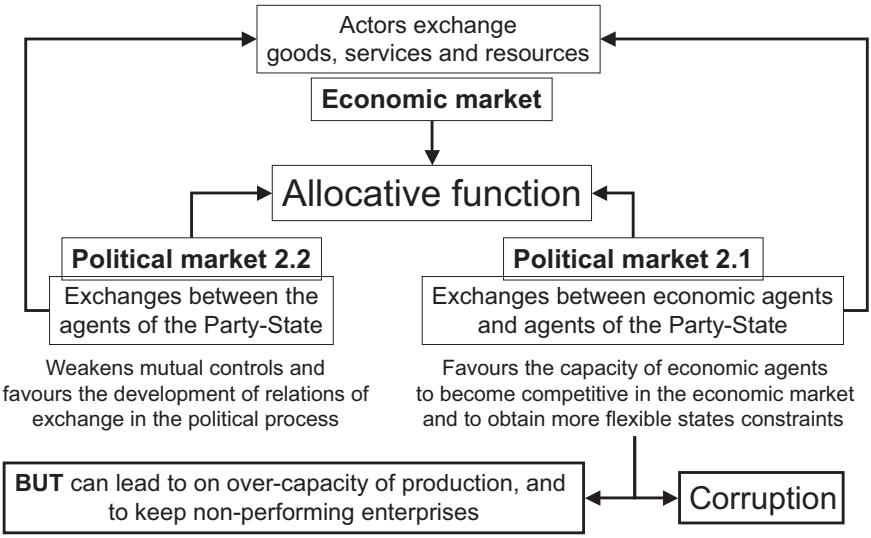


*Figure 4.11* China's functional equivalents.

Source: Yi-min Lin, *Between Politics and Markets*, Cambridge Univ. Press, 2001.

a revolutionary public management. This led him to organize several political campaigns that culminated in the Cultural Revolution that I have interpreted as a move to retain and reclaim power that was in the process of being seized by the bureaucracies that were emerging within the Party, the government and the universities. This bureaucratization process was necessary as Mao initiated the modernization of China. Figure 4.12 summarizes the transition from Mao's public management to Deng's.[46]

Let me point out that this transition inevitably drove Chinese management toward the well-established rational logic of modern public management based upon, as far as possible, scientific evidence, as summarized in Figure 4.13. Furthermore, this corresponds to one of Deng's slogans 'seeking truth from facts', as one of its most important outcomes is to improve the predictability of actors' behaviour, especially of public authorities. This is in fact a characteristic modern societies need in order to support rational behaviour within the market economy where actors, in order to make rational calculations, need to count upon the predictability of the state's behaviour.[47]

In order to acquire the competencies necessary to manage modernization thanks to the introduction of market mechanisms, the Party has implemented a set of measures that in fact opened the Party–State to the sources of competence it needed. These sources are both internal and external to China: universities, intellectuals, businessmen for the former, developed countries (both Western and Eastern) and international organizations for the latter. The importance of acquiring technical

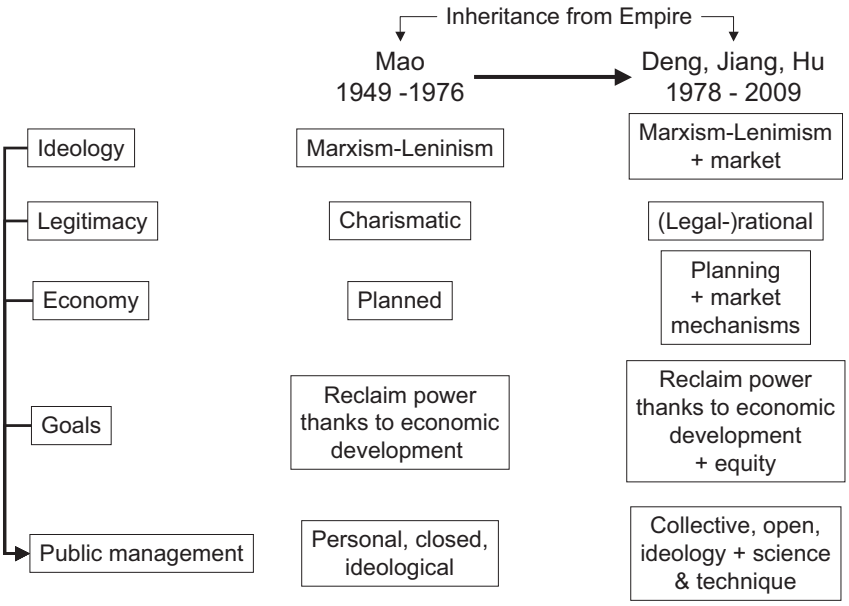


*Figure 4.12* Public management from Mao to Hu.

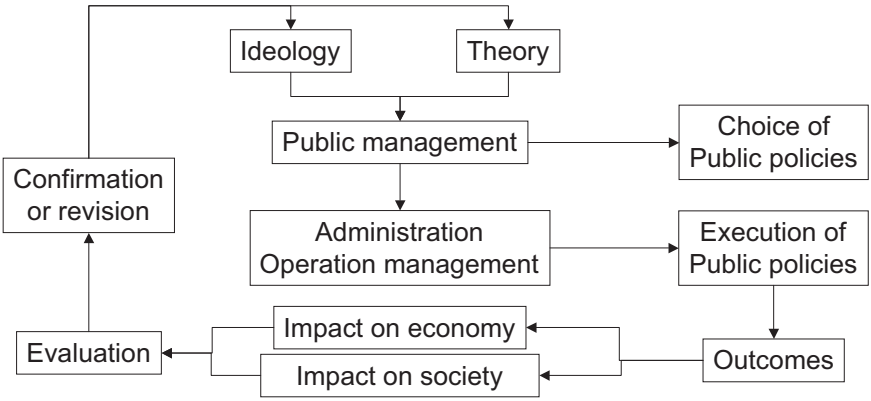


*Figure 4.13* Modernization of the economy and public management.

competencies both in the domains of public management and in enterprises (especially SOEs) has been strongly emphasized by Chinese leaders; for example, at the Party Congresses of 2002 and 2007, as I have shown in chapter 1. Moreover, the Party has opened the decision-making process thanks to four types of measures: association, cooperation, consultation, and appointment. First, it associated with the decision-making process researchers and think tanks of some universities where one can find researchers studying the negative consequences of development, as well as the development of law and civil society. Second, it started to cooperate with international economic organizations such as the World Bank and the Asian Development Bank. These organizations are mainly interested in the improvement of economic efficiency, but for the last few years also with equity.[48] Third, the Party–State started to consult non-communist experts either within the abovementioned organizations or through bilateral cooperation projects. Finally, several non-communist top-level experts have been appointed within the administration, and more recently even at the top political level; I can quote the appointments of the Minister of Science and Technology, Wan Gang, appointed in April 2007, and the Minister of Health, Chen Zhu, appointed in May 2007, who are not members of the CPC.

As a consequence, the structure of the decision-making process has become more open and this allows the Chinese leadership to acquire the scientific knowledge it needs for choosing the policy options that best fit its overall development strategy, not only for sustaining economic development, but also for adopting the policies necessary for re-balancing Chinese society, as we have seen in chapter 3. Figure 4.14 summarizes this new decision-making structure.

Of course, this structure does not correspond to the Western idea of a democratic process, where political parties, pressure groups, and all sorts of organizations are either invited to take part in the decision-making process or have the possibility of expressing their ideas in case they are not consulted. I will come back to this important question in the last part of this chapter and in the conclusion to this book. Here I will mention that liberal democracy has to cope with the difficult question

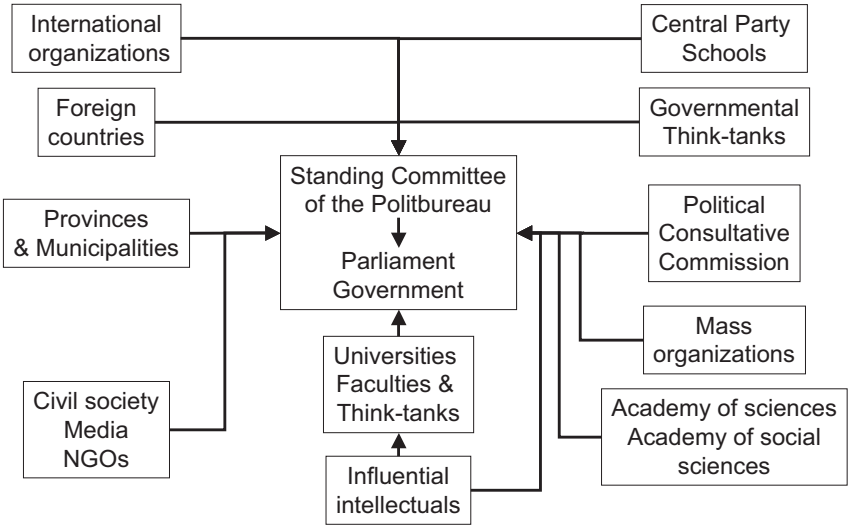


*Figure 4.14* The new structure of the decision-making process. 'Where do correct ideas come from?'*

* Mao Zedong, 'Rende zhengque sixiang shi cong nail laide?', *Selected Readings from the Works of Mao Zedong*, Beijing, Waiwen Chubanshe (Foreign Language Press), 1967, p. 405.

posed by the opposition between the law of numbers (i.e. the fact that in a liberal democracy decisions are taken generally by majority vote) and the problem of choosing the best possible option, which cannot be based on a majority vote but on the best possible solution supported by scientific evidence. For now, it suffices to say that since the end of the Mao's era the Chinese choice of public policies has been increasingly determined by the latter. And this explains the opening up of the Chinese decision-making process to all sorts of sources of knowledge.

The search for the knowledge useful for the decision-making process is further strengthened by the development of the Central Party Schools.[49] Four Party Schools have been set up recently by the CPC to complete the training organized traditionally within the Beijing Central Party School: in Dalian for the top SOEs' managers, who study the improvement of the management of SOEs in the modern economy, in Yanan and Jinggangshan for the training in revolutionary traditions and conditions of the country, and in Shanghai (Pudong) for the training in international affairs.[50] In these schools modern management techniques as well methodology for analyzing policy options are offered to the top cadres of the Party. For example, the Party School of Pudong (the most modern of them all) organizes training in different domains. As you can see from the list given in the footnote, in addition to technical topics related to the present policy agenda, there are also topics related to the past, such as the 'introduction to Chen Yun's thought', who has been for many years the chief economist of the Party and responsible for the planned economy during the Mao era.[51]

Even the members of the Permanent Committee of the Politburo attend training sessions. For example, during 2007, 44 sessions were organized for these very top leaders in the domains of social problems (11), strengthening of the Party (9), economic development and reforms (7), rule of law (7), technological development (3), and other (7); that is, one session every six weeks.

Training abroad is also organized for cadres of all levels, especially for top leaders. As I said in the preface, I was personally involved in one of these training programmes organized between 1998 and 2003 for top leaders of the public administration and the Party at the central and local level. The topics chosen after in-depth discussion with our Chinese partner (a training centre reporting directly to the Organisation Department of the Politburo) indicate the seriousness with which these cadres have envisaged their training, that covered practically all the most important domains of public management, as well as the interface between the government and the economy, including privatization and contracting out.[52]

Amongst the governmental think tanks, The National Development and Reform Commission (NDRC) assumes a paramount role. This commission has replaced the old Planning Commission set up in 1952 for the purpose of steering the planned economy. Reporting directly to the Prime Minister, the main functions of the NDRC today are:

1 to formulate and implement strategies for national economic and social development, long-term plans, annual plans, industrial policies and price policies;
2 to monitor and adjust the performance of the national economy, maintain the balance of economic aggregates and optimize major economic structures;
3 to examine and approve major construction projects;
4 to guide and promote economic system restructuring;
5 to carry out strategic readjustment and upgrading of industrial structure, coordinate the development of agriculture and rural economy and guide the development of industry;
6 to formulate plans for the development of the energy sector and manage the national oil reserve;
7 to promote the sustainable development strategy, social development and coordinated development of the regional economy and implement the Western Region Development Program;
8 to submit the plan for national economic and social development to the National People's Congress on behalf of the State Council in accordance with the Constitution.

The NDRC has a staff of 890 civil servants and 26 functional departments, bureaux, and offices.[53] In order to give an idea of the vast field covered by the NDRC, it is interesting to mention the following departments: Department of Development Planning; Department of Fixed Assets Investment; Department of Economic System Reform; Department of Industrial Policies; Department of Foreign Capital Utilization; Department of Rural Economy; Bureau of Energy

(National Oil Reserve Office); Department of Transportation; Department of High-Tech Industry; Department of Small and Medium-Sized Enterprises; Department of Resource Conservation and Environmental Protection (Office of National Coordination Committee for Climate Change); Department of Social Development; Department of Fiscal and Financial Affairs.[54]

During the last decade particular importance has been conferred on the contributions to the decision-making process from the major universities. These fulfil three major roles: first the training of young scholars who could later become civil servants or Party cadres, as well as adult education addressed to civil servants and Party cadres. The government has invested a lot of money in improving both university infrastructure and the salaries of academic personnel. Moreover, the government has financed study abroad for many professors and young advanced students, and as already mentioned before, it has conferred on the best universities the organization of Masters programmes in public administration. The second task of universities, which has been much developed, is the provision of expertise to the government. The example of social security presented in chapter 3 has shown that the debate on the options open to China for organizing its new social security system has been supported by a great number of university professors and researchers providing a great variety of options from which the government will have to choose.

Regarding the third and final role, the universities constitute an intellectual open space where policy options are freely discussed amongst academics of all levels. Within the best universities a great deal of research has been developed dealing with several very delicate topics, such as corruption, disparities, the role of NGOs, foreign policy, the relationship with the US, the best way toward further economic development, social security reform, etc. These academic activities testify to the vibrant development that is taking place within Chinese universities, and more widely within the Chinese intelligentsia.[55]

By channeling information, expertise and scientific analyses from these various sources, the Chinese leadership has considerably improved its capacity to design, implement and monitor public policies aimed at sustaining economic development and re-balancing the Chinese society. We may consider that the Communist Party of China has become a learning organization. Figure 4.15 summarizes the case of the preparation of the new Chinese health system which I have presented in chapter 3. After years of experimentation at the provincial level, a report of the NDRC concluded that the existing system had failed due to a considerable increase in cost, inefficiency, and the exclusion of a large part of the population. The Party–State then set up a coordination group under the responsibility of the Ministry of Health and the NDRC. This group coordinated the works of several organizations: 12 agencies representing several ministries; the Universities of Peking, Fudan, Renmin, Tsinghua (in cooperation with Harvard) and the Normal University of Beijing; the World Health Organization; and the private consulting company McKinsey. Several reports were presented by these organizations, and a final report was presented to the Chinese leadership for evaluation and final decision. At the Party Congress of November 2007 President Hu Jintao announced the imminent publication of the new Chinese Public Health System.

It is at the end of this long process that the Chinese leadership has confirmed the development strategy that puts 'people first'. While reaffirming the dominant role of the Party as well as its historic mission of leading the Chinese people toward restored power and prosperity; it is also confirmed that the contradictions created within Chinese society by economic development must be resolved, namely the contradictions between rural and urban areas, economy and society, development of economic capital and human capital, economy and environment. In order to do so it is recognized that it will be necessary to:

1 re-balance the economy by reducing the inequalities
2 develop the economy, science and technology, and urbanization
3 reduce unemployment and the contradictions between capital development and human capital development
4 coordinate the development between rural and urban areas, the economy and people, the economy and the use of non-renewable resources, and between the economy and respect of the environment
5 improve the social security system, housing, transportation and health
6 safeguard the interest of migrant workers.

The conclusion that can now be drawn from the data, information and analysis presented so far in the four chapters point to the relative success of the strategy and policy set up by the Party–State since the beginning of the reforms some

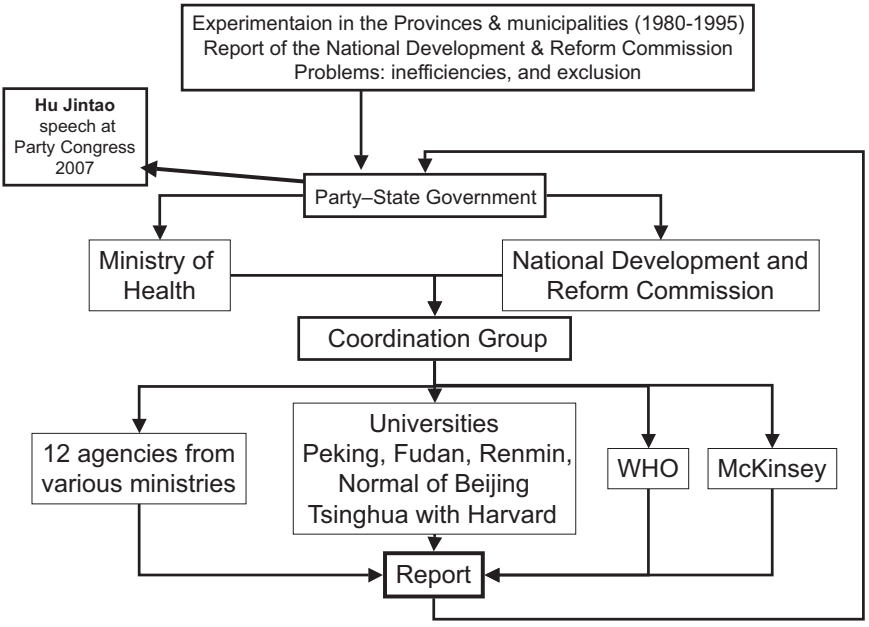


*Figure 4.15* Preparation of the reform of the Chinese health system.

30 years ago: China has maintained an annual increase of GDP around 9 percent for about 30 years; it has drawn out of poverty more than half a billion people; and has become one of the major economic and political players in the international system. Of course some serious problems have to be addressed: the average per capita income is still low compared to the other major international players; several million Chinese still live below the poverty line;[56] disparities have increased between provinces and between rural and urban areas; and air, water and soil pollution has deteriorated the environment with dramatic consequences on public health. All these problems have been addressed by the Party–State. Even if the challenges are formidable, taking stock of the steering capacity of the Chinese leadership during the 30-year long reform process, it is reasonable to forecast that in about 20 to 30 years, not only will China become the biggest economy in the world but that Chinese society will be more balanced and prosperous.

Still, there remains a question that has been formulated by a majority of Western scholars: China is not yet following the model of a liberal democracy, and therefore it is bound to fail in its endeavour. This is the question I am going to discuss in the following and last section of this chapter.

### *2.2 Liberal democracy, the rule of law and the Chinese way*[57]

It is out of the question to discuss here in detail the different approaches to liberal democracy available in the vast literature provided by Western scholars. I would rather take into consideration some of the fundamental dimensions of the Western model and see how they compare with the Chinese one. Generally, the Western model is characterized by two fundamental elements: democracy and the rule of law. Most of the time democracy is considered effective when a relatively free electoral process is organized in which all the political parties, existing at the moment the electoral process is open, are allowed to effectively compete. And it is with great satisfaction that Western countries salute the introduction of elections in non-Western countries in which they have favoured or imposed elections.[58] This event is usually celebrated as a victory of democracy. Nevertheless, this institutional arrangement does not seem to be sufficient. In fact, on many occasions Western countries refuse to accept the result of elections when they bring to power a party whose ideology and/or the political agenda they disapprove of, as happened in the 1970s in South America and more recently in Palestine and Iran. Moreover, it seems to me that, in the context of Western liberal countries, the holding of elections cannot be considered as a sufficient indicator of democracy. At most, elections can be considered an indicator of representative democracy and not of other forms of democracy as they exist for example in Switzerland. In this country, the people not only elect their representatives in Parliament, but can also oppose laws voted by Parliament by referendum, and can initiate a legislative process or a constitutional amendment by using the right of initiative. In addition to that, many other features of the political system must be assured for constituting a real democracy in the liberal sense.

For this reason, many Western scholars have started to qualify the system of

other types of regime as 'non-liberal or illiberal democracies'.[59] Moreover, they complete the requirement of free elections with the notion of the rule of law. Although this term is used in everyday political discourse in a generic sense, meaning that the law is superior to everybody including the rulers, from the point of view of public law and political philosophy the rule of law can assume different forms. Proceeding to a more in-depth analysis, Randal Peerenboom, following the work of Leon Fuller,[60] operates the distinction between 'thick and thin conception of the rule of law'.[61]

> Briefly put, a thin theory stresses the formal or instrumental aspects of law – those features that any legal system allegedly must possess to function effectively as a system of laws, regardless of whether the legal system is part of a democratic or non-democratic society, capitalist or socialist, liberal or theocratic. Although proponents of thin interpretations of rule of law define it in slightly different ways, there is considerable common ground […] In contrast to thin versions, thick or substantive conceptions begin with the basic elements of a thin conception, but then incorporate elements of political morality, such as a particular economic arrangement (free-market capitalism, central planning, etc.), forms of government (democratic, single party socialism, etc.), or conceptions of human rights (liberal, communitarian, collectivist, 'Asian values', etc.).[62]

Then Peerenboom goes on to say that there is relatively little controversy over the merits or elements of a thin rule of law. On the contrary, 'there are competing thick conceptions of rule of law, and considerable disagreement over particular aspects of particular thick conceptions in China, Asia, and elsewhere'.[63] And he warns that 'when laws are at odds with the dominant values they are rarely implemented'.[64]

The content of human rights is then what counts. In the West the content is generally composed of a set of human rights (civil and political rights) that confer to the citizens several freedoms (of thought, expression, association, of commerce and enterprise, as well as, and above all, the protection of private property, and free elections) and whose state's organization is based upon the principle of the separation of powers. But what constitutes the main characteristics of the rule of law is that it must be a supporter of the market economy, or more precisely of capitalist economy.[65] Even Peeremboom, one of the Western scholars most sympathetic toward China's achievements, not only in the economy but also in the construction of a legal system close to the Western ideal of the rule of law, seems to use the Western model as a standard against which to appraise the Chinese system.[66] Clearly he admits that China may evolve toward a democratic system that most likely will not be liberal, but that nevertheless will possess a special form of a thick rule of law. Furthermore he gives the impression that he regrets that China has not for the moment adopted, and may in the future never adopt, the Western model.[67] At the annual session of the National People's Congress of March 2009, its President, Wu Bangguo, declared that China will never copy the political system of Western

countries and called on Chinese lawmakers 'to maintain the correct political orientation with the leadership of the Communist Party of China as the core'.[68]

## Conclusion

The research upon which this book is based, confirms some of Peeremboom's conclusions about China as an example of the East Asian model.[69] Slightly different from the Peerenboom characterisation, I propose to retain the following elements characterising China's system as it stands today. First, the Chinese leadership has given priority to economic growth rather than civil and especially political rights during the initial stages of development, i.e. for at least two decades from the historic decision of 1978 in favour of reforms. Nevertheless, it would be unfair and misguiding not to mention several innovations that little by little have moved the focus of reforms away from the priority given to GDP growth towards the adoption of a set of policies that 'put people first'.[70] To begin with, some rights have already been granted in the economic domain, such as the protection of property rights, the right to buy and sell, and a reasonable guarantee of freedom of commerce and enterprise, even if private companies have limited access to financial institutions. Moreover, some measures aimed at assuring a better protection of employees have been adopted, such as the new Contract Labour Law.[71] The implementation of the *hukou* system has been relaxed in order to improve the access of migrant workers to public services in the municipality where they work most of the time and not in the village where they reside officially. In the legal domain, the right to appeal to courts has been strengthened, even if the functioning of courts is not yet satisfactory due to a lack of competence and interference of public authorities. Huge numbers of people living in the western and inner provinces, the majority of whom make their living in the countryside, have benefited from the abolition of agricultural taxes and fees, and moreover substantial investments in infrastructure have improved the prospects of development in these provinces. After decades of experimentation, a universal social security system is emerging for both the urban and the rural areas. Finally, the organization of elections at the village level has been generalized, and experiments are underway with some electoral methods for the selection and confirmation of Party and government officials at various levels of leadership.[72]

Second, a pragmatic approach to reforms, that puts more emphasis on the real situation and possibilities of China instead of ideological considerations; this way of considering the strategy open to China for managing its own development in all domains (economy, society, polity, and legal system) has driven China to deny the validity of the Washington consensus and pursue its own way to development: the Beijing consensus and, under the leadership of Ju Jintao, implementing the new development strategy that "puts people first".[73]

# Conclusion

## The reconciliation of state, market and society in China

While the considerations I have developed shed some light on Chinese society, economy and polity, one question remains without a clear answer: why should China embrace the main features of Western liberal democracy? This question is closely related to the 'convergence thesis' I have mentioned on several occasions: China decided at the end of the 1970s to incrementally abandon a planned economy and introduce market mechanisms, and on completion of this process it will end up with a market (or capitalist) economy. The best and only way to achieve this goal, the argument goes on, is to set up a political system based upon liberal democracy and its fundamental characteristics; that is, the rule of law, human rights and fundamental freedoms, including the right to own private property. It follows that the related question is: if one considers that conversion to 'liberal democracy' is the strategy China should follow to develop its economy and thus improve the standard of living of its population, are the fundamental values of Western liberal democracy universal in character, so that China may eventually choose to adopt them as part of its own political culture sometime during its own historical process? And China's accession to the World Trade Organization (WTO) in 2001, via which it has today become embedded in the global market economy, constitutes an additional factor that should drive China toward the adoption of liberal democracy.

In order to answer these questions, I will first examine to what extent the Universal Declaration of Human Rights (hereafter the Universal Declaration) may be used as an ideal model for orienting the development of human rights in China, and second I will examine whether the actual implementation of liberal democracy in the West may serve as a practical model for China.

It is difficult to find universally accepted answers to the questions related to human rights; namely the definition of their content, their existence as universal principles, and the extent to which they are actually implemented in various historical situations. Certainly one could consider that they exist as principles that must be discovered during history by the various civilizations. This is clearly the answer given by the authors of the Universal Declaration.[1] But as civilizations have evolved at different paces and have developed different cultural frameworks, the core values of their cultures differ in important aspects that have resulted in different concepts of the relationship between individuals and society, as well as between individuals and polity, and consequently in different concepts of human rights.[2] In

this situation, the challenge is: how to manage the relations between civilizations when one of them considers that it has discovered universal human rights, and is moreover convinced that it is invested with a civilizing mission of imposing them on the rest of the world?[3] Is it true that this way of approaching the question of the universal character of human rights has led some to believe that we have come to the end of history and, even more, that the clash of civilizations is inevitable?[4]

Even so, one could still consider that the Universal Declaration constitutes a reasonable ideal model providing a set of standards against which different civilizations can be evaluated. Nevertheless, one is forced to admit that human rights as defined by the Universal Declaration are rarely fully implemented even by countries that explicitly consider that these rights constitute the foundations of their political system, and that moreover use them as standards for evaluating and criticizing other countries.[5] Several problems make it difficult to use the Universal Declaration as a standard against which to assess China's compliance with human rights.

To start with, the Universal Declaration has been adopted two and a half millennia after the ideas of democracy (to which many of the fundamental rights are connected) first appeared in Ancient Greece. In the first chapter of this book I have already pointed out the very long history the West had to struggle through, and the very long list of dreadful and atrocious violations of human rights Western countries had perpetrated before an agreement could be reached at the moment of writing the Universal Declaration. And even at that time, many countries that voted on the Declaration were nevertheless miles away from applying it in many respects. On the other hand, ideas of liberal democracy and constitutional law emerged in China only in the course of the nineteenth century, after two millennia of Imperial power. Only after the Chinese Empire collapsed in 1911, was a serious attempt made for the first time to implement these values within the architecture of the First Republic, but they did not last long.[6] Moreover they were clearly considered by Sun Yat-sen as an objective to be realized during the third stage of the process of modernization, as I have shown in the first chapter. Very quickly China came back to ways of organizing its polity more in line with the fundamental value of its political culture inherited from the Empire: centralization, unity, harmony, and exclusion from power of competing alternative forces.[7] This means that the individual history of countries and cultures is the fundamental factor that determines the acceptance of the human rights of the United Nations Declaration as universal. Of course one can still formulate the hypothesis that even countries that do not agree with the rights defined in the Universal Declaration may one day 'discover' them and consider them as universal, and not as values imposed unilaterally by Western countries to the rest of the world.

Second, one cannot consider the implementation of human rights as something that can be realized simultaneously and in a short period of time, as the history of human rights in the West very well demonstrates; the Universal Declaration was adopted at the end of a long, incremental, non-linear process that the atrocities of the Second World War have brought dramatically to completion.[8] Bearing this in mind, it should come as no surprise that some countries, in their quest for a reasonable and acceptable implementation of human rights, have chosen to start

implementing some of them and not others, this choice being very clearly oriented by other fundamental values typical of the culture of the countries concerned. In Western countries the ideals of formal democracy, separation of powers, political freedom and equal formal political rights, and the right to own private property (art. 17 of the Universal Declaration) had acquired paramount importance for the functioning of capitalist economies toward the second part of the eighteenth century. It is not therefore surprising that they gave priority to these rights at the partial (or in some cases the total) expense of substantive rights, such as: the right to work; the right to free choice of employment; the right of protection against unemployment; the right to just and favourable remuneration ensuring for people and their families an existence worthy of human dignity (art. 23); the right to a standard of living adequate for the health and wellbeing of themselves and their families, including food, clothing, housing and medical care and necessary social services; and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other hindrances to livelihood in circumstances beyond their control (art. 25). Many of these rights have been introduced in the West only after decades of political struggle between the defenders of a radical conception of capitalist economy giving priority to the freedoms and rights of capital, and those defending the rights and freedoms of workers and employees. This opposition is based upon some other fundamental values, namely the opposition between individual and collective responsibilities.

Only after the Great Depression and especially after the Second World War have workers' rights been more fully recognized in Western countries, even if to a lesser degree than capital's rights. This situation, which persisted until the end of the 1970s, has nevertheless been reversed since the neo-liberal Right has re-gained power and has implemented policies that have considerably weakened the safeguard of the rights and freedoms of labour, a situation that is being further worsened by the present international financial and economic crisis.[9] The most negative consequences of neo-liberal policies have been: a deterioration of the situation of people in the labour market where the number of low-paid, short-term and part-time jobs has increased; a reduction of the coverage on social security policies; a more unequal distribution of income; an increase in the rate of poverty; an increase in the rate of crime and of people in jail; and a deterioration of the health of people in an unstable labour market situation. There is therefore little to be proud of and to teach lessons to the rest of the world.

When assessing China's strategy for implementing human rights, one must again consider that ideas of democracy emerged in China only during the nineteenth century, that at the beginning of the twentieth century China's economy and society were in a state of backwardness, and that hundreds of millions of Chinese people were living below the poverty line, a situation that persisted basically until the beginning of the reform process at the end of the 1970s. It is therefore not surprising that the Chinese leadership has given priority to economic development with the aim of allowing the Chinese people to attain for themselves and their families 'an existence worthy of human dignity' (art. 23 of the Universal Declaration). I remind the reader that the World Bank has considered that most of the Millennium

Development Goals have either already been achieved or the country is well on the way to achieving them and that between 1981 and 2004 the fraction of the population consuming less than a dollar a day fell from 65 to 10 percent, and more than half a billion people were lifted out of poverty.[10] Surely enough, and I have provided ample evidence of this in chapter 2, this strategy has also widened the disparities that already existed at the end of the Mao era. But I have also shown that, the Party–State has recognized, since the mid-1990s, that this situation was not viable or sustainable as it ran the risk of jeopardizing the fundamental values of harmony and unity typical of Chinese culture. Consequently, under the leadership of Hu Jintao (from 2002 to today) the Party–State adopted a new strategy 'that puts people first', and launched a series of policies aimed at reducing the disparities and at improving the standard of living of those who had not benefited from the phenomenal increase of total wealth (measured in GDP). That this new strategy has been adopted by the CPC for the sake of retaining power is of course an interesting issue;[11] but what is more important is whether this new policy has improved, and will in the future effectively improve, the living conditions of the Chinese people so that they will 'enjoy freedom from fear and want', as stated in paragraph 2 of the Preamble of the Universal Declaration.

It is at this point that the critique of the majority of Western scholars points to what they consider as the major weakness of the Chinese strategy: only liberal democracy can constitute the best support to the development of the economy, provided that it takes the form of a market economy or, more precisely, of a capitalist economy, as it is this type of economy that allows a country to maximize economic efficiency. Of course, the majority of Western scholars applaud the introduction of market mechanisms in China, because on the one hand they correspond to the type of economy they prefer, and on the other hand because a market economy will inevitably drive China toward liberal democracy. But at the same time many Western observers are intrigued (to say the least) to see that for about 30 years market mechanisms have been implemented and expanded in China with great success in spite of the absence of liberal democracy, while the Chinese political system has retained many of the authoritarian characteristics it had already in 1949. The problem here is that the Chinese strategy of development is demonstrating that it is possible to realize capital accumulation in the absence of liberal democracy. Let us recall that this had already been the case for Soviet Russia, even if the accumulation process has been less impressive than the Chinese one, and during the 1980s the inefficiency of a planned economy was being recognized even by the Soviet leadership. Moreover, the collapse of the USSR gave the West the impression, and for many even the certitude, that there was no alternative other than capitalism and liberal democracy to maximize economic efficiency whilst assuring the implementation of human rights. Unfortunately, the Chinese case constitutes a clear refutation of this very popular hypothesis (and, for some, prescription). This hypothesis would have gained more support if China had collapsed as the Soviet Union did at the beginning of the 1990s. And this is what many observers have predicted and some still predict today. But for the moment it seems that the Chinese leadership is taking the right measures to correct the negative consequence of an

economic development that has given too much space to neo-liberal policies.[12]

It is here that Randal Peeremboom's analysis which I presented at the end of the fourth chapter comes as a reasonable answer. As far as we can see from the development of Chinese society, polity and culture, the adoption by China of liberal democracy as a form of political system aimed at sustaining the economy is by no means certain. Moreover, the grave difficulties experienced today by capitalism all over the world and the incapacity of liberal democracy to effectively supervise and control the behaviour of financial actors, are more likely on the contrary to comfort the Chinese leadership as to the validity of its strategy, and maybe also to revise some policies based upon a blind implementation of some 'free market' devices. I refer here more particularly to forms of privatization or quasi-privatization of domains such as education, health, access to drinkable water, and more generally infrastructure and social security, as they have been implemented in recent years.[13] It is true that the international financial and economic crisis is affecting China as well, but much less than the Western countries. Whereas the latter have entered into recession and will experience a considerable contraction of their GDP, the World Bank forecasts for China an increase of GDP that while being less impressive than for the last three decades (with an annual average around 10 percent) nevertheless, with an increase of 7.2 percent for 2009, places China in a better situation than the West.[14] We have here another reason for considering that the convergence thesis is not very likely to be realized in the near future.

The only possibility of retaining the convergence thesis is to reformulate it on the basis of demographic variables, following the works of the French demographer and historian Emmanuel Todd. In his research Todd takes into consideration many dimensions and indicators covering economy, polity and society.[15] But, as he explains in the new preface to his book on the fall of the Soviet sphere,[16] he comes to the conclusion that the irreversible crisis of the USSR is basically explained by demographic analysis. According to Todd, and in contrast with economic indicators, it is difficult to manipulate demographic variables. Moreover, when correctly interpreted, they become powerful indicators capable of unveiling what is hidden beneath a society. The major variables are: birth and death rates; rate of infant mortality; and rate of fertility. Using these variables, together with the rate of literacy for both men and women, Todd shows that there is in fact a convergence worldwide, and that this convergence drives the world toward modernization: in particular, the increase in the rate of literacy for both men and women goes together with the generalization of birth control behaviours and policies and a consequent decrease of the fertility rate. This in turn contributes to increasing the number of working women. Moreover, countries that have started this process are 'inevitably' evolving toward forms of social and political organization that are more peaceful, open, less hierarchical, and more participatory.[17]

Let us note that Todd also explains that this process of fundamental change will inevitably produce periods of violence between traditionalists and modernizers, that he calls 'crisis of transition', but that will in the end result in a more peaceful society. Through this analysis Todd arrives at the conclusion that the Fukuyama thesis of the end of history is not entirely to be rejected, as there is in fact a

convergence worldwide.[18] But Todd strongly opposes the thesis that the convergence he has discovered in terms of demography and education will inevitably urge toward a universal adoption of the Western model of organizing society, polity and economy. Moreover, Todd also opposes Huntington's thesis of a clash of civilization, that could lead (and in fact has led under the Bush administration) toward a crusade of the West against the rest of the 'uncivilized and non-liberal world'. On the contrary, Todd speaks of a 'rendez-vous' and not of a clash of civilizations, which seems to be more in line with China's strategy of 'peaceful rise'.[19]

The ideas put forward by my interpretation of Todd's research are in line with and reinforce my own conclusions that I presented above. Whereas we cannot exclude that China may evolve in the future toward forms of organization similar to the Western ones based upon a similar interpretation and implementation of human rights, China's long history and the particular culture it has developed through centuries are more likely to develop forms of societal organization 'with Chinese characteristics'. This does not mean that these forms will be less open than the Western ones. If Todd's hypothesis is correct, these forms will be open but in ways that will be specific to Chinese culture and its fundamental values.

Let us now turn to the question of whether the actual implementation of liberal democracy in the West may serve as a practical model for China. I will do this by taking into consideration some of the most radical criticisms of Western democracy developed by some Western scholars.[20]

Let our starting point be the confidence that most Western people (scholars and laymen) have in the superiority of their own democratic system; other countries are evaluated by the standards of Western democracy. This is what the Italian philologist Luciano Canfora calls 'democratic fundamentalism'. He maintains that, starting from this point of view, all other systems are qualified as totalitarian. Taking the example of China, Canfora considers that Western criticism is most of the time based upon ignorance. After quoting the massacres of the American Intelligence Agency (CIA) in Chile and Indonesia, Canfora says that 'after the end of the Soviet Union, China, especially after Tiananmen, became the privileged object of this misunderstanding […]' and he goes on quoting A. Ronchey who wrote in one of the most influential Italian newspapers: 'Western people have often interpreted the Chinese events with the historical evaluation parameters of their world instead of studying China according to its own principles […] this distant country exists as it has been forged by the longest history, the most rapidly developing demography, the most harmful hydrography, and the most painful colonial domination'.[21]

Bearing this in mind, let me first say that democracy as it is practiced today in Western countries is characterized by an inextricable symbiosis between the political elite that performs official public roles within the state's organs on one side and, on the other, the economic elite that dominates the market economy. It is within a complex game between economic, political and intellectual elites (including influential university professors and journalists) that policy options are examined, choices are made and then presented to the public. Apart from some limited cases of semi-direct democracy (as they exist in Switzerland and in some member

states of the US Union) the people cannot directly interfere within these processes. Of course there exists a 'free press' that can monitor the work of the elites. Nevertheless, the majority of the mass media that have a large circulation within and amongst Western countries are under the control of powerful companies that themselves belong to the economic elite, with which they share ideological values and economic interests. It is not likely that these mass media can exert an efficient and impartial control over the ruling elite (what I have called the dominant group). Examples of this collusion between economic, political and intellectual elites are given by the way mass media have covered important events like the Vietnam war, the Iraqi war, the intervention of the NATO alliance in former Yugoslavia, and the more recent events of the Georgia international crisis between the US and some of their allies on one side and Russia on the other.[22] Common interest between some of the members of the Bush administration and powerful economic interests shed some light on the real purposes of some of the Bush policies both internally and internationally.

Moreover, some critics of Western democracy also consider that trade unions and left-wing parties that should defend the interests of the weakest sector of society have little by little, at least since the beginning of the 1980s, failed in this mission, and have embraced the major options of the liberal economic elite. Only recently, because of the negative consequences of the implementation of New Public Management (NPM) policies, some of the members of the traditional Left started to oppose the implementation of liberal conservative policies.[23] For a very long time, starting toward the mid-1970s, the majority of Western mass media have trumpeted all over the world the superiority of private companies' management over state's management, and the necessity of reducing the state's role in economy and society, it being harmful to the development of a market economy. As mentioned before, the results have been increasing disparities in income distribution, increasing rates of poverty and crime, and the deterioration of people's health, especially those who experienced difficulties in the liberalized (i.e. deregulated) labour market.[24]

Furthermore, Western governments have abdicated in favour of the managers of financial institutions and organizations by giving autonomy to their Central banks and renouncing to better regulate financial markets.[25] The consequences of this transfer of power from the political system to the economy, and more particularly to the financial system, are today before everyone's eyes thanks to the crisis that exploded in September 2008 in the US in spite of several warnings in the form of smaller crises that occurred during the 'wonderful years' of the NPM and the 'Washington consensus'.

Even in the absence of the abovementioned phenomena, the idea that decisions taken by the dominant elite can be subject to public scrutiny is not entirely convincing. Choices between policy options are most of the time based upon very sophisticated technical considerations. And this brings me to one of the most serious objections to Western-type democracy; that is, the opposition between the law of numbers (i.e. the fact that in a liberal democracy decisions are taken by majority vote) and the necessity of deciding on the basis of well-documented scientific analysis

that cannot be evaluated by vote but by scientific criteria. This system can work only if citizens are very well-educated and can therefore appreciate the validity of the policy options put forward by elites in the public space.[26] Otherwise they are forced to believe what the elites say, which is in fact one of the main features of representative democracy. In this system citizens elect their representatives on the basis of party identification, or because they approve the programme presented by parties and/or individual candidates during the electoral campaign, or because they are convinced by the personality of the candidates; then policy options are debated by citizens' representatives within the parliamentary arena (most of the time on the basis of governmental proposals), and finally policies are adopted by parliament and implemented by the public administration.

This system can only work if the elites are transparent and honest; that is, if they act according to what they have promised during the electoral campaign, otherwise the door is open to all sorts of manipulations that can lead to policies that favour parochial or private interests and may lead to an inequitable distribution of rights and wealth. Here again Canfora's analysis is useful. First he suggests that we can see that for at least the last 20 years Western countries have been implementing basically the same policies, no matter who wins the elections. This is for Canfora the proof that factors other than those linked to electoral and parliamentary politics are at work. These cannot but come from the economic elites or oligarchies. Canfora further considers that oligarchies succeed because they possess more competencies, and they are well organized. And this is why oligarchies are 'the core of the most durable regimes, especially if they are open, and capable of co-opting social elements that are becoming important within other classes. If selection and co-optation are based upon common interests (as is most of the time the case in the West) and not upon an ideological basis (as was the case in the Soviet Union) then this process is more efficient and stable'.[27] This way of seeing the role of elites is interesting as it allows accounting for the functioning of systems that may differ in many respects from one another. The big mistake of the Soviet leaders has been to believe that it was sufficient to expose unmasked the oligarchic character of Western democracies. They did not understand that 'the strength of the Western model was to combine the substance of the oligarchy with the construction of a consensus about the dominations of the oligarchy, even if this entailed the passing from "democracy" to fascism, and from fascism to democracy. This is the foundation of the vitality of Western oligarchies'.[28]

To what extent are the considerations developed above interesting for evaluating the Chinese system of government? The most important conclusion is that both the Western system and the Chinese one are based upon the dominant role of elites (or oligarchies, or dominant groups). There certainly is a difference in the degree of freedom the two systems leave to the various economic, social and political forces within each of the two systems, but overall the mechanisms for retaining power are the same (see again Figure 4.3 of chapter 4). The result obtained by these two systems for the people can of course be evaluated by some objective scientific means of social science enquiry. But at the end, it is up to the people living within these two systems to evaluate the advantages or disadvantages they obtain from

the policies implemented by their dominant group. In the West, a two-and-a-half millennia-long history lead the people to treasure both political and economic freedoms as means for obtaining a satisfactory way of living in terms of both material and immaterial means. It is then on the basis of how well the dominant group performs on these criteria that people will base their evaluation of the dominant group. In China the four-millennium long history has led to the treasuring of stability and harmony as the means of obtaining a satisfactory way of living in terms both material and immaterial. It seems that the Chinese leadership is on the right track for further improving the standard of living of the Chinese people. And the majority of the Chinese people seem to be satisfied with the improvement already realized and look forward with confidence to the improvements to come. So, why should China adopt a Western-type system not compatible with its history and culture?

At the end of our journey into the reform process of the post-Mao era, it is difficult to give a definitive answer to the question implicit in the title I gave to this book: has the Chinese leadership succeeded in reconciling state, market and society in China? In the West the present crisis has certainly revealed an increasing gap between the state, dominated by the economic and especially the financial elite, and the rest of the population. Radical defenders of capitalism, while on the defensive and recognizing the mistakes made by some of its major actors, reaffirm the validity of this type of economic organization, and warn the politicians about the negative consequences of irrational policy decisions that will lead to an overdevelopment of regulations and badly harm the economy.[29] Moreover, the crisis and the decisions taken by President Obama to save the US financial system have introduced some doubts even amongst the ranks of the most fervent defenders of American-style capitalism who have started to ask a question that would have been unthinkable a few months ago: 'Are we all socialists now?'[30]

Some others, more critical, try to save capitalism by defining new rules of the game that will limit the freedom of the financial elite so as to avoid its irrational behaviour on one side, and on the other, by regulating the functioning of domestic and international markets so as to give birth to a capitalism with a humane face capable of distributing the wealth it creates more equitably, especially between labour and capital, as well as between developed and in-transition countries.[31] Amongst these critics, some explicitly question the validity of the 'efficient market model' and the naïve belief that markets are self-correcting (what Stiglitz calls 'market fundamentalism'),[32] especially in international economic relations, and some others even call for a revival of protectionism.[33] Others are even more radical and propose to put an end to the capitalist experiment that has lasted at least two and a half centuries, by proposing new ways of organizing state, economy, polity and society.[34]

The behaviour of managers of financial institutions who made not only unbelievable mistakes (out of greed and/or incompetence) but also decided to cash in on enormous bonuses, has outraged average citizens, many of them living below the poverty line, or working full-time but with either very modest salaries or living below the poverty line (working poor), many others having lost their savings,

house and/or job since the crisis outbreak; still many others fearing for their future as the crisis has gone well beyond the financial sector to infest the so-called 'real economy'. Many experts and opinion leaders interpret the anger of these citizens and go as far as to request the 'permanent nationalization of banks'.[35] Ironically, this proposal has certainly come as a surprise to Chinese ears after years of counsel given by Western and especially American experts pressing China to privatize its banks, not to speak of the condescension with which these same experts have very liberally given their advice to China about how to get rid of the so called 'bad loans' of Chinese commercial banks.[36] As a remarkable reversion of history, Chinese leaders have not failed to seize the opportunity to blame the US for the present crisis, and to teach them a good lesson by publicly issuing a proposal suggesting a global monetary overhaul, including calls for a new reserve currency to replace the US dollar.[37] A passage from the statement by the Governor of the People's Bank of China, Zhou Xiaochuam, that looks like an academic lecture on international finance, is worth quoting in full:

> theoretically an international reserve currency should first be anchored to a stable benchmark and issued according to clear set of rules, therefore to ensure orderly supply; second, its supply should be flexible enough to allow timely adjustment according to the changing demand; third, such adjustments should be disconnected from economic conditions and sovereign interest of any single country. The acceptance of credit-based national currencies as major international reserve currencies, as is the case in the current system, is a rare special case in history. The crisis called again for creative reform of the existing international monetary system toward an international reserve currency with a stable value, rule-based insurance and manageable supply, so as to achieve the objective of safeguarding global economic and financial stability.[38]

It is true that a few days later, Ambassador FuYing, speaking to the BBC in London, tried to minimize the scope of the statement saying that Governor Zhou's comments calling for a new reserve currency were meant as a contribution to an old debate. Nevertheless, the message is quite clear.[39]

The debates going on in the West, and more generally all over the world, remind me of the slogan of one of the giants of the Communist Party of China, Chen Yun, who is famous for having described the economy as a bird that should be kept in a cage. But be careful, he warned, if the cage is too narrow you will kill the bird, and if it is too big the bird will fly away![40] Moreover, these debates clearly show that efforts toward reconciliation between elites and citizens are on their way, but with lots of hesitations and many contradictory proposals that are witnessing the formidable political and ideological struggle that is going on between radical defenders of capitalism, strong reformers, and radical innovators who would like to put an end to capitalism. The uncertainty of this situation, and the memory of the capacity of capitalism to resurrect after the previous crises, make some experts forecast (and others fear) that at the end of this process the cynical and disabused remark of Prince Salina in the famous Italian novel *The Leopard* will, once again,

prove to be true: 'If we want everything to stay as it is, it is necessary to change everything …' waiting for the next, fatal and final crisis?[41] While it is certain that the seriousness of the present crisis needs some radical restructuring of the various components of society (in a new form of capitalism or in a completely different form of societal organization), it is today difficult to forecast how the West will succeed in reconciling state, economy and society.

Unfortunately, not all the Western major actors seem to be taking the present financial and economic crisis as seriously as they should. On the contrary, some of them, and especially the banks and the American government, give the impression of reverting (slowly but surely) to the habits of the 1980s. Instead of taking serious measures, they are simply muddling through.[42] And the authoritative *McKinsey Quarterly* has posted on its website an article entitled 'The Case for Government Reform Now', that while recognizing that the state has to play an important role in resolving the problems created by the crisis, very strongly invites governments to persist on the road of reform by taking examples from private enterprises, whose performance management is without any doubt superior to the one of the public sector.[43] The implicit reference to the NPM reforms implemented since the beginning of the 1980s is quite clear, in spite of the fact that even some authoritative liberal observers have recognized that these reforms are the major cause of the present crisis.[44] According to McKinsey 'few of them [i.e. governments] have an established track record of reputation for managerial excellence [and the reforms undertaken in the past] typically fall short: with few exceptions, they skim the surface, cover little ground, take too long, and leave much of the public sector relatively untouched. That's why we see a need for broader, deeper, and faster reforms.' The goal of these reforms is clearly to improve the state's performance, which is certainly a laudable goal. But the article insists on many occasions on just one aspect of performance management; that is, cutting costs by reverting to the traditional (NPM) promise to cut costs in the public sector prior to making an in-depth investigation.[45] The article is not very explicit in what domains the 'deeper, broader, and faster' reforms should be implemented. But the introductory paragraph gives a clear hint by enumerating the domains that constitute today, according to the authors, the major challenges for governments: health care, social security, education, national security, crime, and critical infrastructure. How the savings will be realized is not explicitly explained, but to those who are well acquainted with the NPM devices implemented since the 1980s the solutions are quite clear: privatizations, contracting out, and public–private partnerships, followed or accompanied by deregulation. In other words, let's go back to the wonderful years of NPM now, let us forget that the major causes of the present crisis are to be found in the NPM and, even more, let's try to do better by implementing 'broader, deeper, and faster' NPM reforms *now*.

As for China, it is certain that the present crisis, which is with no doubt the most serious one capitalism has had to cope with since the Great Depression of 1929, should come as a serious warning to the Chinese leadership not to count too much on the miraculous benefits of the 'free market economy' (both domestically and internationally) or on a mechanical transfer of Western so-called 'best practices' to

the Chinese situation.[46] On the contrary, the Chinese leadership should be encouraged to experiment with new ways of managing society in harmony with China's culture, economy and environment, that may lead the Chinese people toward a brighter future without jeopardizing unity and stability. What is also certain is that considerable progress has been made toward this end during the last 30 years, not only in terms of overall development measured by GDP (which is generally recognized by the overwhelming majority of experts) but also because of the significant improvement of the standard of living of the majority of the Chinese people, even if at the cost of some remarkable disparities, that are nevertheless being seriously addressed by the Party–State. Freedom in the economic sphere is very large, to the point that some consider that it should be restricted at least for the sake of avoiding illegal practices that lead too often to immoral enrichment of some dishonest citizens at the expense of the honest ones.

Moreover, the improvement of the economic conditions of Chinese citizens has given more confidence to an increasing number of them to engage in public debates, to resort to tribunals to settle disputes and even to engage in overt protest movements to contest illegal decisions and actions taken by public authorities, especially at the local level. Experience of these last years proves that this process, which is going on in spite of difficulties due to traditional behaviour (as explained in chapter 4) and the vested interest of too many local dishonest leaders, is not opposed by the central state. In fact, the Chinese leadership has publicly declared that it has opted for governing the country according to laws, and to vigorously striving against corruption and more generally against the illegal practices and behaviour of local authorities. It is therefore in its interest to show that it will not tolerate behaviour that clearly goes against the law. Only when the authority of the Party–State is overtly and publicly attacked, will the Party–State repress opposition movements.

The problem is that in its quest for modernizing the country, and having in mind the failure of Gorbachev's reform strategy in Russia, the Chinese leadership is constantly trying to find a balance between the necessity of retaining power for the purpose of leading the country's economic development and the goal of progressively introducing spaces of freedom within Chinese society necessary for sustaining the modernization process. Unless some extremely grave mistakes are made in the future, which is unlikely to happen given the findings presented in this book, it is most likely that the completion of the reconciliation with Chinese characteristics is on its way, even if it will necessitate more effort, imagination and patience for the decades to come. And the long history of China has shown that the Chinese people possess these qualities.

# Notes

**Foreword**

1 Mao Zedong, 'On practice', written in July 1937 and is collected in the *Selected Works of Mao Zedong*, vol. 1, 1951.
2 Mao Zedong, 'On contradiction: particularities of contradictions', August 1937. *Selected Works of Mao Zedong*, vol. 1, People's Publishing House, 2nd edition, June, 1991, p. 310. The original wording is: 'This is what we mean by looking at a problem one-sidedly. Or it may be called seeing the part but not the whole, seeing the trees but not the forest.' The author has modified it.
3 Mao Zedong, *Collected Works of Mao Zedong*, vol. 7, Beijing, People's Publishing House, 1979, p. 392.
4 When Deng Xiaoping met with Japanese Prime Minister Masayoshi Ohira on December 6, 1979, he, for the first time, revealed his conception of a prosperous society, saying that China should strive to realize a prosperous society toward the end of the twentieth century.
5 Deng Xiaoping, *Chronicles of Deng Xiaoping, 1975–1997*, pt II, September 1993, p. 1364.
6 Deng Xiaoping, *Selected Works of Deng Xiaoping*, vol. III, p. 377, 'Develop Socialism and concentrate the forces on achieving something big'.
7 Mao Zedong, *Selected Works of Mao Zedong*, vol. 8, Beijing, People's Publishing House, 1999, p. 301.
8 Mao Zedong, *Selected Works of Mao Zedong*, vol. 8, Beijing, People's Publishing House, 1999, p. 301.
9 Deng Xiaoping, 'China's goal is to achieve comparative prosperity by the end of century', *Selected Works of Deng Xiaoping*, vol. II, December 6 1979.

**Preface and acknowledgements**

1 There are of course some exceptions dealing more generally with the changes of Chinese society and polity, e.g. Cheng Li (ed.), *China's Changing Political Landscape. Prospects for Democracy*, Washington, DC, Brookings Institutions Press, 2008; Bo Zhiyue, *China's Elite Politics. Political Transition and Power Balancing*, New Jersey and London, World Scientific, 2007; and Tubilewicz, Czeslaw (ed.), *Critical Issues in Contemporary China*, London, Routledge, 2006. The most balanced evaluation of China's reforms from a Western scholar is to my knowledge: Randall Peerenboom, *China Modernizes. Threat to the West or Model for the Rest?*, Oxford, Oxford University. Press, 2007.
2 Let us note that the development of the new legal system is one of considerable complexity. See on this point the opinion of one of the best Western experts of the

development of the Chinese legal system, Randall Peerenboom, 'A Government of Laws, Democracy, Rule of Law, and Administrative Law Reform in China', in Zhao Suisheng (ed.), *Debating Political Reform in China. Rule of Law vs. Democratization*. New York, M.E. Sharpe, 2006, pp. 58–78.

3 See for example: Gordon G. Chang, *The Coming Collapse of China*, New York, Random House, 2001; Thierry Wolton, *Le grand bluff chinois. Comment Pékin nous vend sa « révolution » capitaliste*, Paris, Laffont, 2007.

4 The willingness of Western business to conquer the '1.3 billion consumers of the Chinese market' is apparent in a number of websites, amongst which it is interesting to mention the World Bank's website devoted to China (www.worldbank.org.cn) that publishes an annual report on "Doing Business in China". Moreover, practically all the international organizations dealing with the global economy publish reports, comments, and advice about the conditions, prospects and the better strategies for doing business in China. Other sites, some of them managed by economists and experts of market economy, are for example the "Asia EconoMonitor" (www.rgemonitor.com/asia-monitor) and Money Morning (www.moneymorning.com). Books written by experts of Chinese economy also deal with this perspective, for example: Tim Ambler and Morgen Witzel, *Doing Business in China*, London, Routledge, 2004, and James McGregor, *One Billion Customers: Lessons from the Front Line of Doing Business in China*, London, Nicholas Brealey Publishing, 2005; see also the special issue of the Harvard Business Review, *Doing Business in China*, Boston, Harvard Business Review Paperback, 2004. Finally, many multinational enterprises, alone or in cooperation with other private companies (either within various 'Sino-foreign' chambers of commerce or within lobbies regrouping several companies) plan and organize the conquest of the Chinese market, especially after China's access to the World Trade Organization in 2001 by which China promised to further open up its economy. The most famous of them is the so-called 'New China Lobby' that comprises several American multinationals active in China and desiring to expand their business there. The China Lobby not only provides advice and support to its members, but also lobbies the American government to avoid too aggressive official statements and policies against China (especially on the questions of human rights) that may provoke some retaliation from China harmful to the projects of its members (see 'The New China Lobby', *American Prospect*, 1 January 1997, available on www.prospect.org/cs/articles?article=the_new_china_lobby_1197, accessed 7 September 2009). Recently, foreign private companies active in China have very severely criticized the new Chinese Contract Law that improves the protection of the Chinese workers and employees. The reason given is that it would inevitably increase the cost of labour. These companies thus show that they are more interested in improving their profitability than the well-being of the Chinese employees (see note 70, chapter 4).

It is finally interesting to remark that in the midst of the global fever for saving the planet that exploded recently as the Copenhagen Summit on Global Change of December 2009 was approaching, the authoritative McKinsey Company posted on its website an article that proposes to set up a Sino-American partnership to deal with these problems in China and the US. The document quite rightly considers that this endeavour needs the latest and best performing technology, but amongst the numerous other potential partners it only mentions *in passing* Europe, and very strongly suggests, even if not explicitly, that the US is the best partner possessing this technology. The expected consequences in terms of market shares and profitability for American businesses in this new domain are thus quite clear (available on the McKinsey website: http://www.mckinseyquarterly.com/article_print.aspx?L2=3&L3=50&ar=2419, accessed 9 August 2009).

5 Among them it suffices to mention in Switzerland: Nestlé, Holcim, Roche, Novartis, Ciba Chemicals, UBS, Crédit Suisse, Swiss Federal Railways, Swisscom, Ascom, Holcim, and SwissAir; in France: Air France, Alcatel, AXA, EDF-Electricité, France Telecom, L'Oréal, LVMH, SNCF (French Railways), and Vivendi; in the United

Kingdom: British Telecom, Severn Trent, Prudential, and Thames Water.

6 Although I do not speak Chinese, this has been possible with those who could speak English, and otherwise with the help of my Chinese assistants.

7 In the introduction to the collection of his writings on the sociology of religion in different countries (including a chapter on China) Max Weber warns the laypeople not to overestimate the content of his book: Max Weber, *Gesammelte Aufsätze zur Religionssoziologie*, Band I, Tübingen, Mohr, 1947, p. 13 (my translation from the German). The exact sentence in German is: 'Und doch in einer anderen Hinsicht muss wenigstens der Unorientierte vor einer Überschätzung der Bedeutung dieser Darstellungen gewarnt werden. Der Sinologe, Indologe, Semitist, Ägyptologe wird in ihnen natürlich nichts ihm sachlich Neues finden. Wünschenswert wäre nur: dass er nichts zur Sache Wesentliches findet, was er als sachlich falsch beurteilen muss'.

8 Paolo Urio, *Le rôle politique de l'administration publique*, Lausanne, LEP, 1984, chapter 5, pp. 217–82.

## 1 Chinese political culture and why it does matter

1 Bo Yang, *The Ugly Chinaman and the Crisis of Chinese Culture*, St Leonards, NSW 2065, Allen & Unwin, 1992. 'This was a tract by Bo Yang, the pseudonym of the gadfly Guo Yidong. Guo was born in the mainland in 1920, and fled to Taiwan in 1949. […] In the 1960s, he began to write satirical essays … Though a mainlander, Guo Yidong was in favour of democratic modernization, if not wholesale westernization. However, his satirical essays drew the attention of the authorities, and in 1968 he was sentenced to 18 years in prison on trumped-up charges of association with the Communists. He was released in 1977, after Chiang Kaishek's death […]. By the early 1980s, Bo Yang was able to publish more openly, and in 1985 his signature essay *The Ugly Chinaman* went on sale to a storm of controversy', in Rana Mitter, *A Bitter Revolution. China's Struggle with the Modern World*, Oxford, Oxford University Press, 2004, p. 292; chapter 7 entitled 'Ugly Chinamen and dead rivers', pp. 244–84 is worth reading. May I add that Bo Yang was invited in September 24, 1984, to give a speech at Iowa University (USA) that was later to become the first chapter of his book.

2 Bo Yang, op. cit., Preface to the English translation by Bo Yang, p. ix. We will see later in this chapter that it is not Confucian culture per se that is at stake here, but a particular interpretation of Confucius that became the cultural (ideological) basis of the Imperial power.

3 Hu Sheng (Chief editor), *A Concise History of the Communist Party of China*, Beijing, Party History Research Centre of the CPC Central Committee, Foreign Language Press, 1994.

4 Bo Yang, op. cit., pp. ix–x.

5 Many Chinese researchers have published research findings on these aspects of the development of Chinese society. For a recent and stimulating account of these findings see: Hu Angang, *Economic and Social Transformation in China*, London, Routledge, 2007.

6 François Billeter, *Contre François Jullien*, Paris, Allia, 2006, pp. 76–7 and 79, our translation from the French.

7 In defence of François Jullien several Western intellectuals have contributed to a book: Jean Allouch, *et al*., *Oser Construire: pour François Jullien*, Paris, Seuil, 2007.

8 Nicolas Zufferey, *Introduction à la pensée chinoise*, Paris, Hachette, 2008. This book, entitled *An Introduction to Chinese Thought* was published whilst I was finalizing this chapter. This is certainly much more than an introduction, at least for the political scientist, for whom the book provides a remarkable synthesis of Chinese philosophy. Moreover it suggests many interesting comparisons between Chinese and Western philosophers, and even more interestingly, it points to the non-distinction in the writings of Chinese philosophers between general and political philosophy, which will be one

of the main themes I develop in the following paragraphs. I have therefore introduced Zufferey's remarks and taken advantage of his suggestions whenever I considered it appropriate to the development of my analysis. I only hope that by doing so I have not betrayed the general logic of his analysis of Chinese thought. Finally, I will leave to the specialists of the history of philosophy the task to determine whether we can speak of a Chinese philosophy or simply of Chinese thought. See Zufferey, op. cit., chapter 1: 'Pensée ou philosophie?', pp. 19–32. For some suggestions comparing Western and Chinese philosophers see pp. 225–32.

9 Billeter, op. cit., pp. 76–7, our translation from the French. Billeter goes on to say that this process explains the resurgence of Confucianism, with the risk of restoring the culture of Imperial China. Nevertheless, Zufferey considers that Confucius' ideas do not necessarily constitute an impediment for developing a political system based upon the ideas of democracy and human rights (op. cit., especially pp. 242–3).

10 I will develop the analysis of these policies in the following chapters. For the moment it is interesting to compare the Chinese Imperial culture and the neo-liberal ideology now prevailing in the West and that the West is endeavouring to impose on the rest of the World. Chinese Imperial culture was based, as we shall see below, on an analogy with nature, as is today the case for several defenders of neo-liberalism.

11 For a general view on the changes that the present difficult situation of both liberal and social-democratic countries see the stimulating work of Roberto Mangabeira Unger, *What Should the Left Propose*?, London, Verso, 2005, with many references to China. On China see the reactions to the proposals of Pan Wei of Peking University suggesting for China a system of 'political liberalization without democratization' in Suisheng Zhao (ed.), *Debating Political Reform in China: Rule of Law vs. Democratization*, New York, M. E. Sharpe, 2006, with chapters written by Western and Chinese experts.

12 Many academic books have been published on Western countries comparing their similarities and differences. Western countries viewed from North America or from Continental Europe have often been presented by underlining their differences as much as their similarities. See for example the article of Fareed Zakaria published in the world famous and authoritative American journal *Foreign Affairs*: 'The rise of illiberal democracy', *Foreign Affairs*, vol. 76, no. 6, November – December 1997, pp. 22–43; by comparing liberal and illiberal democracies around the world, and by clearly preferring Anglo-Saxon capitalist democracies to the European continental ones, he says: 'Most non-Western countries have embraced the French model — not least because political elites like the prospect of empowering the state, since that means empowering themselves — and most descended into chaos, tyranny, or both. This should have come as no surprise. After all, since its revolution France has run through two monarchies, two empires, one proto-fascist dictatorship, and five republics' (op. cit., p. 39). One wonders what would Fareed Zakaria say today about what happened to the US since the American Revolution! For a short reply to this question see 2 articles by Zakaria: 'What Bush got right', *Newsweek*, 18–25 August 2008, pp. 23–7, and 'China shouldn't be inscrutable', *Newsweek*, 11 August 2008, p. 41. For a more detailed answer see the last Zakaria's book: *The Post-American World*, New York, W.W. Norton, 2008.

13 Immanuel Wallerstein, *Le capitalisme historique*, Paris, La Découverte, 1985 (translation of: Historical Capitalism, 1983), Tom Bottomore, *Theories of Modern Capitalism*, London, Allen & Unwin, 1985; Fernand Braudel, *La dymamique du capitalisme*, Paris, Flammarion, 1985; David Coates, *Models of Capitalism: Growth and Stagnation in the Modern Era*, Cambridge (UK), Polity Press, 2000; Robert E. Goodin, Bruce Heady, Ruud Muffels and Henk-Jan Dirven, *The Real Worlds of Welfare Capitalism*, Cambridge, Cambridge University Press, 1999; Pierre Rosanvallon, *Le capitalisme utopique. Histoire de l'idée de marché*, Paris, Seuil, 1979; Pierre Rosanvallon, *Le libéralisme économique. Histoire de l'idée de marché*, Paris Plon, 1979; Ellen M. Wood, *Democracy Against Capitalism*, Cambridge, Cambridge University Press, 1995, and *The Origins of Capitalism*, London, Verso, 2002 (revised and expanded edition).

Roberto Mangabeira Unger has very well defined the institutional indetermination of the concept of market economy: 'The concept of market economy is institutionally indeterminate. That is to say, it is capable of being realized in different legal and institutional directions, each with dramatic consequences for every aspects of life, including class structure of society and the distribution of wealth and power', *Free Trade Reimagined*, Princeton, Princeton University Press, 2007, p. 9.

14 See for example Bill Emmott, *Rivals: How the Power Struggle Between China, India and Japan Will Shape Our Next Decade*, London, Allen, 2008; Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East*, New York, Public Affairs, 2008.

15 On this point see the recent work of the Nobel Prize winner Joseph E. Stiglitz, *Globalization and its Discontent*, New York, W.W. Norton, 2002, and, and Joseph E. Stiglitz, *Making Globalization Work: The Next Steps to Global Justice*, London, Penguin, 2006. See also Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development*, Oxford, Oxford University Press, 2005.

16 According to the *Wall Street Journal* (online edition, http://asia.wsj.com), 29 July 2008.

17 For the role of China in orienting the development of the West see: John M. Hobson, *The Eastern Origins of Western Civilisation*, Cambridge, Cambridge University Press, 2004 (chapters 3 and 9 on Chinese influence on the West); Gavin Menzies, *1434 The Year a Magnificent Chinese Fleet Sailed to Italy and Ignited the Renaissance*, New York, Harper Collins, 2008; and Robert Temple, *The Genius of China: 3,000 Years of Science, Discovery and Invention*, London, Prion, 1998 (introduced by Joseph Needham).

18 Paolo Urio, *Le rôle politique de l'administration publique*, Lausanne, LEP, 1984, chapter 4: 'Administration publique et société', pp. 139–216.

19 See François Billeter, op. cit.; François Jullien, *Procès ou création, Une introduction à la pensée chinoise*, Paris, Seuil, 1989, *La propension des choses. Pour une histoire de l'efficacité en Chine*, Paris, Seuil, 1992, *Traité de l'efficacité*, Paris, Grasset, 1996, *La valeur allusive*, Paris, PUF, 2003 (1st ed. 1985).

20 Mao Zedong, 'Reform our study', *Selected works of Mao Zedong*, 19 May 1941, Transcription by the Maoist Documentation Project. Revised in 2004 by Marxists.org, available on http://www.marxists.org/reference/archive/mao/selected-works/volume-3/mswv3_02.htm, accessed 6 September 2009.

21 Gabriel A. Almond and G.B. Powell, *Comparative Politics: A Developmental Approach*. Boston, Little, Brown & Co, 1966, p. 50.

22 Gabriel A. Almond and Sidney Verba, *The Civic Culture*, Boston, Little, Brown & Co., 1963, p. 12.

23 Lucian W. Pye, *Aspects of Political Development*, Boston, Little, Brown & Co., 1968, p. 218.

24 Let us note, however, that the definition by Pye does not strictly say anything on the nature of this rationalization or this conscience (true or false?) or on its major origins. The functionalists are generally limited to describing the process through which the political culture is transmitted (political socialization).

25 Karl Marx, *L'idéologie allemande*, Paris A. Costes, 1947, pp. 156–58, *Critique de l'économie politique*, in *Oeuvres de Karl Marx*, La Pléiade, Paris, Gallimard, vol. 1, p. 273.

26 Marx, *L'idéologie allemande*, op. cit., p. 193.

27 One can in addition consider, in following Marx, that when the ideology ceases to be dominant, i.e. at the service of the dominant class (following the disappearance of this one and the society of classes), it will have lost its function of domination (its political function) just like the social culture will have lost its subset, i.e. the 'political culture'. It seems however that such is not the conclusion of Marx, who opposes ideology and science, Marxism being itself science and the dominant ideology (imposed on the dominated classes) being only false conscience (Marx, *L'idéologie allemande*, op. cit.,

pp. 26, 193; Louis Althusser, *Lire le Capital*, Paris, Maspero, 1965, vol. 2, p. 92). It thus seems that the realization of a classless society should lead at the end of the ideology. In a passage of his criticism of political economy (Karl Marx, *Critique de l'économie politique*, in *Oeuvres de Karl Marx*, La Pléiade, Paris, Gallimard, vol. 1, p. 4) Marx speaks about a simple 'correspondence' between 'relations of production' and the 'forms of social conscience'. But since the ideology is the product of the relations of production, and if it is admitted that the disappearance of the classes does not involve the end of the relations of production but of new relations of production, it should be concluded that the latter 'will produce' a particular ideology, which will not be any more that of the dominant class, but that of the whole classless society. This view holds of course if one makes the hypothesis that a classless society will go hand in hand with the complete triumph of science. Then, ideology would have disappeared, everything being explained by science, and all behaviours being oriented by scientific evidence, shared by everyone in society. We notice that some Marxists try to solve the problem by giving up the opposition ideology-science as well as the equivalence between ideology and false conscience. Moreover, as this equivalence poses problems when one deals with the dynamics of change, some try to escape this dead end by attributing a relative autonomy to the various substructures and, in particular, to ideology. See on this point the work of Antonio Gramsci, *Selections from the Prison Notebooks*, London, International Publishers, 1971.

28 The CPC itself heavily insisted on the fact that China is in transition towards a socialist society, and that could take a considerable time. See, e.g. the speech of Jang Zemin at the time of the Congress of the Party in November 2002: China regards itself as being engaged in a process of transition from the primary stage of socialism to an advanced stage of socialism that will take at least 100 years.

29 Almond and Verba, op. cit., chapter 1, Almond and Powell, op. cit., chapters 1–2, and Pye, op. cit., pp. 218–24.

30 Almond and Powell, op. cit., p. 23.

31 This last assumption corresponds to the attempt of Jiang Zemin to invite businessmen to join the Communist Party.

32 See on this point Roberto Mangabeira Unger, *What Should the Left Propose*?, op. cit., p. 1, who thinks that the differences between these parties are not very important in the West, and that therefore in these countries there exists what he calls 'the dictatorship of no alternatives'.

33 In this context, the thesis formulated by Jialu Wang (*Socialism and Governance: A Comparison Between Maoist and Dengist Governance*, Geneva, Department of Political Science, 2002, unpublished thesis under the supervision of Prof. Paolo Urio, pp. 4–5): 'Different from Western parties which may be differentiated along the left-right continuum, a communist party changes *over the time* along the left-right continuum. In the Maoist period, the Communist Party of China (CPC) can be qualified as a party adopting leftist policies, whereas in Dengist period, CPC can be qualified as a party adopting rightist policies.' Wang quotes James Roger Townsend and Brantly (*Politics in China*, Boston and Toronto, Little, Brown and Company, 1980) who characterize Chinese politics from 1949 to nowadays as a transition from center-left to center-right. Inside a communist party, different factions can be differentiated along the left–right continuum. According to Mao 'Except for the desert, wherever there are crowds of people, there will be left, center and right; this is true even after ten thousand years' (*People's Daily*, 27 April 1968). Competition between multiple parties in capitalist countries is here replaced by competition between different factions or opinion groups inside a mono-party.

34 I adopt the following definitions: (a) 'socialization is the process by which the human person learns and interiorizes during her life the socio-cultural elements of her environment, integrates them into the structure of her personality under the influence of experiences and of significant social agents and by so doing she adapts to the social

environment where it must live' (my translation from the French), Guy Rocher, *Introduction à la sociologie générale*, Paris, Editions HMH, vol. 1, p. 132; (b) 'political socialization is the process by which society transmits its political culture of one generation to the other', Kenneth p. Langton, *Political Socialization*, New York, Oxford University Press, 1969, p. 4.

35 For a 'progressist' interpretation of that which is generally regarded as a revolution (the Industrial Revolution) and not as a process of transformation, see David S. Landes, 'The fable of the dead horse; or, the industrial revolution revisited', in Joel Mokyr (ed.), *The British Industrial Revolution: An Economic Perspective*, Boulder, CO, Westview Press, 1993.

36 Nobody can deny that the liberal revolution constituted amongst other things a formidable process of secularization by reducing the impact of the religious values (Christian) on the polity. Nevertheless these values did not completely lose their importance, as is clearly apparent from some public statements of the Catholic Church, especially on family policies, as well as from the recent controversy between creationists and scientists in the United States as to the origin of humankind.

37 See the thesis of Gordon Chang, *The Coming Collapse of China*, New York, Random House, 2001, and of the same author: 'Halfway to China's collapse', *Far Eastern Economic Review*, June 2006, pp. 25–8. More recently: Thierry Wolton, *Le grand bluff chinois. Comment Pékin nous vend sa 'révolution' capitaliste*, Paris, Laffont, 2007; and Guy Sorman, *The Empire of Lies: The Truth about China in the XXI Century*, New York, Encounter Books, 2008.

38 See for example for the persistence of traditional cultural traits in the process of modernization (especially of the legal system) the works of Randall Peerenboom, *China's Long March Toward Rule of Law*, Cambridge, Cambridge University Press, 2002, *China Modernizes: Threat to the West or Model for the Rest?*, Oxford, Oxford University Press, 2007, and 'A Government of laws: democracy, rule of law, and administrative law reform in China', in Suisheng Zhao (ed.), op. cit., pp. 58–78. For a contemporary analysis of the pertinence of the Confucian tradition see: Zufferey, op. cit.; and the works of Daniel Bell, *The Cultural Contradictions of Capitalism*, New York, Basic Books (Perseus Books), 1996 (Twentieth Anniversary Edition with a new afterword by the author), *Beyond Liberal Democracy: Political Thinking for an East Asian Context*, Princeton, Princeton University Press, 2006, as well as Daniel A. Bell (ed.), *Confucian Political Ethics*, Princeton, Princeton University Press, 2008, and Daniel A. Bell and Chaibong, Hahm (eds), *Confucianism for the Modern World*, Cambridge, Cambridge University Press, 2003.

39 For the developments which follow I am indeed largely dependent on the master thesis completed under my supervision by Jiang Ping, *The Politico–Administrative Relations in China: From Imperial Bureaucracy to Socialist Regime*, University of Geneva, Switzerland, 2005, Thesis for the Diploma in Public Management (in French). This work draws its sources within the contemporary Chinese literature. Moreover, in the following paragraphs I have taken advantage of the suggestions of the last book of Nicolas Zufferey, I have already quoted at the beginning of this chapter (see note 8). Zufferey suggests many interesting comparisons between Chinese and Western philosophers, and even more interestingly points to the non-distinction in the writings of Chinese philosophers between general and political philosophy, which will be one of the main themes I develop in the following paragraphs. I have therefore introduced Zufferey's remarks and taken advantage of his suggestions whenever I considered appropriate for the development of my analysis.

40 I have developed elsewhere the difficulties of this distinction in the West, Urio, op. cit., chapter 2: *Théories de l'administration publique: peut-on séparer administration et politique?*, pp. 41–90.

41 And this, in spite of the very many movements of protest, in the majority of social origin, which have multiplied these last years, but which remain insulated at the local

level, and cannot depend on institutions organized at the national level.

42 Jean-Pierre Cabestan, *Le système politique de la Chine populaire*, Paris, Presses Universitaires de France, first edition, 1994, p. 60.

43 I will not enter into the discussion to determine what exactly has been the teaching of Confucius; neither will I deal with the development of Confucianism. On the interpretation of the origins of the Confucian thought and its transformations undergone during the history see François Billeter, op cit. and especially Zufferey, op. cit. I will simply consider what is generally confirmed by sinologists, that Confucianism, that constituted the basis for Imperial power, is in fact an interpretation of Confucius which is not totally faithful to Confucius teaching. In this sense see Zufferey, op. cit., pp 60–1.

44 Zufferey, op. cit., pp. 159 (on the syncretism of official Confucianism), pp. 140–52 (on the link between legalism and Taoism), and 178–87 (on Wang Chong).

45 Marie-Claire Bergère, *Capitalisme et capitalistes en Chine*, Paris, Perrin, 2007, pp. 23–4.

46 For an account of the Chinese contribution to science and technology (well before the European contributions since the Renaissance – fifteenth century) see Temple, op. cit., and John M. Hobson, op. cit., (chapters 3 and 9 on Chinese influence on the West).

47 Marie-Claire Bergère, op. cit.: the whole book admirably illustrates this perspective.

48 See on this important point David S. Landes, *The Wealth and Poverty of Nations: Why Some are So Rich and Some So Poor*, New York, Norton, 1999, pp. 334–49, and Toby E. Huff, *The Rise of Early Modern Science: Islam, China, and the West*, (2nd edn) Cambridge, Cambridge University Press, 2003, pp. 32–9, 241–88. The propensity to secrecy became especially strong from the Ming dynasty on.

49 Europe was able to attain this level of economic and military power thanks to the three revolutions that together contributed to this outcome, i.e. the scientific, the industrial and the liberal revolutions. This is not to say, as I will sustain later in this book, that the European way is the only one that can lead society towards modernity. Here, I just want to recall the historical fact that it is through this type of development that Europe attained, between the middle of the eighteenth century and the middle of the nineteenth century, the economic and military power that allowed it to dominate the world. And this explains (even if it does not justify from a moral point of view) the arrogance and violence with which Europeans (and later Japanese and Americans) have treated the rest of the world.

50 Cabestan, op. cit, p. 60.

51 Xu Datong, *L'histoire de pensées politiques chinoises et étrangères*, edition of the Central University of Radio and Television, p. 224, electronic edition.

52 Cabestan, op. cit., p. 61.

53 Pan Peiqing, *Ethico-stratégie et bio-stratégie, une étude des conditions de la politique en Chine comparée à celles de l'Occident*, p. 251, Berne, Peter Lang SA, editions scientifiques européennes, 1998.

54 Ibid, p. 252.

55 Cabestan, op. cit., p. 61.

56 Ren Shuang, *Ke ju zhi du zu gong wu yuan zhi du, Zhong xi guan liao zheng zhi bi jiao yan jiu* (The KEJU system — Imperial examinations — and the civil service system — Ke ju zhi du zu gong wu yuan zhi du: comparative study of the Chinese and the Western bureaucracies), Shangwu edition, electronic edition, p. 96.

57 Ibid, p. 106.

58 Etienne Balasz, *La bureaucratie céleste, Recherches sur l'économie et la société de la Chine traditionnelle*, Paris, Gallimard, 1968, p. 10.

59 Ren Shuang, op. cit., p. 99. The Chinese authors quoted in this context seem to share the point of view of Harold D. Lasswell, *Power and Personality*, New York, Compass Books, 1962, p. 109. Lasswell defines three social sets: the society, the elite, the leaders. The leaders are people who exert indeed the power after being recruited within the elite. In non-democratic countries the elite is restricted: in extreme cases it can consist

of a clan or a family. In the democratic countries, the elite is wider: in extreme cases, the elite of the democracy is the whole society itself.

60 The system of the Imperial examinations was set up by the dynasty of Sui (581–618) in order to break the power monopoly of the nobility and to integrate into power the landowners, the new class that emerged with the development of the economy. (Zhang, Jinfan, *History of the System of the Imperial Examinations* (Ke ju zhi of the shi hooted), unknown edition, electronic edition of Shusheng, p. 6). The Tang dynasty (618–906) has continued this system, while developing it both for the content of the examinations and for the recruitment of the civil servant. (Zhang Chuangxin, *The History of the Political Institutions of China* (Zhong guo zheng zhi zhi of the shi), Beijing, Editions of the University of Tsinghua, 2005, p. 237). This system of recruitment of the civil servant has undergone a great development during the Song dynasty (960–1279); the purpose was to adapt it to the centralization of power and to the development of administrative affairs (Zhang Jinfan, op. cit., Unknown edition, electronic edition of Shusheng, pp. 9 and 17). Since the establishment of the Ming dynasty in 1368 this institution has been further developed: in particular, in order to take part in the provincial, national and final examinations, it is first of all necessary to be qualified at the local level (Zhang Chuangxin, op. cit., p. 241).

61 Balasz, op. cit., p. 129.

62 Ibid, p. 21.

63 Wang Yanan, *Zhong guo guan liao zheng zhi yan jiu* (The Study of Chinese Bureaucracy), Shanghai, Contemporary Culture Edition (Shi dai wen hua), 1949, pp. 236–42.

64 Zhang Chuangxin, op. cit., p. 334.

65 Wang Yanan, op. cit., pp. 273–4.

66 Let us remind the reader that the incremental strategy of Sun Yat-sen comprises three moments: nationalistic revolution, democratic reconstruction, and social reforms.

67 The process of the revolution and construction is conceived in three stages: Military government (junzheng), government of drive (xunzheng) and constitutional government (xianzheng). The first stage is devoted to the revolution against the Qing monarchy and the lords of war, in the second a revolutionary party directs and involves the popular masses in the political domain in order to prepare for the constitutional regime. The core of the second phase consists in governing the country by the party.

68 Wang Yannan, op. cit., p. 17.

69 Wang Zhaogang, Guomindang xu zheng tizhi yanjiu (Study of the driving role of the Nationalist Party), Beijing, Social Sciences Editions of China, 2004, p. 22.

70 Ibid, p. 21.

71 Zhang Chuangxin, op. cit., p. 465.

72 Wang Zhaogang, op. cit., p. 70. The Central Government is composed of five councils to exert five powers: executive (xingzheng), legislature (lifa), legal (sifa), examinations (kaoshi) and control (jiancha); a Council of State Affairs (guowu huiyi) in charge of the important state affairs has a dominant role over these five councils.

73 Wang Zhaogang, op. cit., p. 71.

74 Ibid, p. 287.

75 Ibid, p. 184.

76 Immanuel C.Y. Hsü, *The Rise of Modern China*, New York, Oxford University Press, 1995, p. 573.

77 For an account of these events see the authoritative *Cambridge Illustrated History of China*: Patricia Buckley Ebrey, *The Cambridge Illustrated History of China*, Cambridge, Cambridge University Press, 1999, pp. 273–82.

78 Let us remind the reader that according to Marxian theory the passage from one mode of production to the next can only happen when the former mode has attained its ultimate level of maturity, corresponding to the development of a sufficient level of contradictions leading to its collapse and its replacement by the next mode. From the point of view of Marxian theory, at the beginning of the twentieth century the most

likely countries to have attained this stage were England and Germany, but certainly not Russia or China.

79 Let us remark however, that the concept of unity of the Empire meant the unity of all sectors of the Chinese people, whereas for Mao unity refers mainly to the Party and its allies against its enemies. Mao is famous for having asked the question 'who are our enemies, who are our friends?' It is only during the Jiang Zemin era with the theory of the 'Three Represents', and even more with the Hu Jintao era with the new development strategy that 'puts people first', that the concept of unity will again mean the unity of all sectors of Chinese society. I will come back to this question in the last part of this chapter.

80 Ai Lihua and LiuYunlong, *Dierci guonei geming zhanzheng shiqi dang shi ruhe chuli suqu dangzheng guanxi* (How the Party treated the relations between the Party and the government in its Soviet bases during the second civil war), Changbai xuekan, (*Studies of Changbai*), no. 4, 1988, p. 45.

81 It is interesting to note that the cadres sent by the CPC to work within the Soviet were not among the most qualified.

82 Ai Lihua and Liu Yunlong, op. cit., p. 46.

83 Xie Yibiao, *Lun zhongguo suweiai zhengquan de dangzheng guanxi* (Analysis of the relations Party-administration of soviet power of China), *Xiaoxing wenli xueyuan xuebao*, (*The Journal of the University of Shaoxing*), vol. 23, no. 6, December 2003, p. 63.

84 Ai Lihua, *Zhengque Zhongguo gongchandang zai kangri minzhu genjudi chuli dangzheng guanxi jiben shijian shuping* (Description and analysis on the general practice of the CPC to judiciously treat the relations Party-administration within the bases of resistance against Japan), Chang bai xue kan, (*Studies of Changbai*), no. 1, 1993, p. 77.

85 According to the principle of the 'three thirds' (sansanzhi) the members of the CPC occupy only one-third of the seats within parliament and government, the other seats being shared by the non-communist leftists and the centrists.

86 Dui dongbeiju zai gaogan huishang guanyu zengquan jianshe fayan tigang of xiugai yijian (Remarks on the intervention of the North-eastern Bureau to the meeting of the top leaders in charge of the construction of power), October 1948. Liu Yunlong, The relations Party-administration at the revolutionary bases during the revolution of the new democracy, in Chinese, without reference, p. 9.

87 It is not necessary in the context of this book to evaluate to what extent Mao has been able to effectively adapt Marxism–Leninism to the Chinese situation. For an evaluation of the positive and negative of Mao's policies between 1949 and 1976 one can rely upon the vast literature available in the West by both Chinese and Western scholars. An interesting evaluation made officially by the historians of the CPC can be found in Hu Sheng (Chief editor), *A Concise History of the Communist Party of China*, Beijing, Party History Research Centre of the CPC Central Committee, Foreign Language Press, 1994. It is interesting to note that in spite of considerable differences (due mainly to different ideological and theoretical perspectives) both Western and Chinese analysis deals with both positive and negative aspects of the Mao era.

88 I recall that the Four Cardinal Principles are: to keep to the socialist road and to uphold the people's democratic dictatorship; the leadership by the Communist Party; and Marxism-Leninism and Mao Zedong thought. The Four Modernizations (that in fact were already introduced by Mao and Zhou Enlai) concern agriculture, industry, science and technology, and defence. In doing so I will use (with several additions and changes) a long paper prepared for my seminar on China's reforms at the University of Geneva 2004–5: Niklaus Nusplipger, Vincent Pasquier and Matthias Riggenbach, *Le dengisme et les réformes: vers une marche socialiste*, Geneva, Department of Political Science, 2005.

89 China is divided administratively into five levels from top to bottom: the centre; provinces (23), autonomous regions (5) and municipalities directly placed under the authority of the Central Government (4); prefectures (333); counties (2863); townships (44067): according to Zhao Li, 'China: political system and state structure', Power

Point Presentation, Tsinghua University, 18 May 2005. Governmental administrations are created at each one of these five levels. For the centre, according to the Constitution, the Council of State Affairs, the central Peoples' Government, is the executive of the supreme body of state power, i.e. of the national People's Parliament, and the supreme administrative body of the state (Art. 85 of the Constitution). The same situation holds for local governments at the various levels that are the executive of state power at the same level, and administrative bodies for the state (Art. 105 of the Constitution).

90 Zheng Chuxuan, and Liu Shaochun, *Dandai zhon xi zhengzhi zhidu bijiao* (Comparison between the Chinese political system and the Western contemporary political systems), *People Editions of Guangdong*, 2004, pp. 288–9.

91 Ibid.

92 The Central Government (the Council of State Affairs) is composed of the Prime Minister, the Deputy Prime Ministers, the Councilors of State, the ministers, the presidents of commissions, the governor of the central bank, the president of the Audit Commission and the secretary general (Art. 2, The law of organization of the Council of State Affairs of the People's Republic of China adopted 10 December 1982). The vice-ministers assist the Prime Minister by managing the major sectors of the government's activity. The Councilors of State deal upon mandate by the Prime Minister a particular sector or task. They can represent the latter abroad. The secretary general directs the general administration and manages the day-to-day governmental tasks. The structure of the local governments is similar to that of Beijing. Departments in charge of the activities of the local government in various fields are installed within the local governments.

93 The most recent and reliable accounts on the changes within the CPC and China's elite are, to my knowledge: David Shambaugh, *China's Communist Party: Atrophy and Adaptation*, Berkeley, University of California Press, 2008; Bo Zhiyue, *China's Elite Politics: Political Transition and Power Balancing*, New Jersey, World Scientific, 2007; and Agnès Andrésy, *Le Président chinois Hu Jintao. Sa politique et ses réseaux. Who's Hu?*, Paris, L'Harmattan, 2008.

94 The general programme of the statutes of the Chinese Communist Party.

95 This has been the case since the 11th Party Congress of 1977. Before that date, Congresses were held in 1921, 1922, 1923, 1925, 1927, 1928, 1945, 1956, 1969, and 1973.

96 These organizations are similar to the 'Party core groups' set up during the inter-war period, as I mentioned above. For the role of these groups under the fourth generation of leaders see Kim Taeho, 'Leading small groups: managing all under heaven', in David M. Finkelstein and Marianne Kivlehan (eds), *China's Leadership in the 21st Century: The Rise of the Fourth Generation*, New York, M.E. Sharpe, 2003, pp. 121–39.

97 These groups are similar to the 'Party core groups' set up during the inter-war period, as I mentioned above. The term 'Party Organization' appears in the official English translation of official documents and speeches of Chinese leaders; e.g. in Jiang Zemin's speech at the Party Congress of November 2002.

98 Jin Dongri, *L'administration et la modernisation, l'exemple de la Chine et de la Corée du Sud*, Tianjing, Peoples Edition of Tianjing, 2004, p. 47.

99 Xie Qingkui, *Le gouvernement chinois contemporain*, Peoples Edition of Liaoning, electronic version, p. 114.

100 XU Xianglin, *Dang guan ganbu tizhi xia of jiceng minzhu shi gaige* (The democratic reforms at the base within the framework of the management of the cadres by the Party), *Zhejiang Academic Journal*, no. 1, 2004.

101 Yang Fengchun, *Le Système politique contemporain de la Chine*, Beijing, Edition of the Central University of Television and Radio Broadcasting, electronic version, p. 89.

102 I recall that the Four Cardinal Principles are: to keep to the socialist road and to uphold the people's democratic dictatorship; the leadership by the Communist Party; and Marxism–Leninism and Mao Zedong thought.

103 Here I will deal only with the traditional elements in Jiang Zemin's speech; I will deal

with the innovations in the last part of this chapter. All the quotations are drawn from the official English translation published on the China Daily's website (www.chinadaily.com.cn, accessed 18 December 2002).

104 He also says that: 'We should uphold and improve the system of multiparty cooperation and political consultation led by the Communist Party and the system of regional ethnic autonomy. We should promote political restructuring, develop democracy, improve the legal system, rule the country by law, build a socialist state under the rule of law and ensure that the people exercise their rights as the masters of the country.'

105 We know that an essential element of market economy is the existence of competition, which inevitably refers to the existence of antagonism and even conflict, in spite of the (new) rhetoric of expressions such as 'win–win' agreements between competing economic actors.

106 I will deal with these aspects in chapter 2.

107 Zhang Weiwei, *Ideology and Economic Reform under Deng Xiaoping*, London and New York, Kegan Paul International, 1996, p. 5.

108 Lucian W. Pye, *Aspects of Political Development*, Boston, Little, Brown & Co., 1968, p. 218.

109 These ideas are based upon some values and doctrinal proposals about the nature and the dynamics of history. They are thus theoretical justifications based upon values, whether they constitute a coherent and very elaborate framework or not. It is important to remark that the word 'ideology', such as I use it in this context, does not have the pejorative connotation that it often implies. On this point see Raymond Boudon and François Bourricaud, *Dictionnaire critique de la sociologie*, Paris, Presses Universitaires de France, 2000, p. 295.

110 Kenneth Lieberthal, *Governing China*, New York, W.W. Norton, 1995, p. 122.

111 Max Weber, *Economie et société*, Paris, Plon, 1995, p. 289.

112 Raymond Aron, *Les étapes de la pensée sociologique*, Paris, Gallimard, 1967, p. 560.

113 Weber, op. cit., p. 326.

114 Lucian W. Pye, *China: An Introduction*, Boston, Toronto, Little Brown and Company, 1984, p. 324.

115 Stuart R. Schram, 'Economics in command? Ideology and Policy since the Third Plenum 1978–84', *China Quarterly*, no. 99, September 1984, p. 417.

116 Ibid, p. 419. Another version of this slogan is: 'practice is the only criterion to test the truth'.

117 Zhang, op. cit., p. 24.

118 Herbert Simon, *Administrative Behavior*, New York, Free Press, 1965, pp. 4–8, 45–60, and Weber, op. cit.

119 Quoted by Michel Hammer, *Au cœur de la politique chinoise: les débuts de l'ère Deng Xiaoping*, Genève, Institut Universitaire de Hautes Etudes Internationales, 1998, p. 30.

120 Ibid, p. 21.

121 Aron, op. cit., p. 501.

122 Ibid, p. 500.

123 Zhang, op. cit., p. 24.

124 Schram, op. cit., p. 423.

125 However, I should note that this interpretation is debatable. It could be that this change was understood by Deng as 'rule by law' rather than 'rule of law'.

126 Ronald C. Keith., 'Chinese politics and the new theory of rule of law', *The China Quarterly*, no. 125, March, 1991, p. 110.

127 I will further develop this point in the last chapter when I will propose an interpretation of the reform process by using a theoretical model of power I developed elsewhere: Urio, op. cit., chapter 5, pp. 217–82.

128 Adapted from Hammer, op. cit., p. 80.

129 Zhang, op. cit., p. 30.
130 Hammer, op. cit., p. 80 (my translation from the French).
131 Quoted by Schram, op. cit., p. 424.
132 On the role of Chen Yun in Chinese politics see David M. Bachman, *Chen Yun and the Chinese Political System*, Berkeley, CA, Regents of the University of California, 1985.
133 Zhang, op. cit., p. 43.
134 Ibid, p. 131.
135 Ibid, p. 133.
136 Ibid, p. 45.
137 Quoted by Zhang, op. cit., p. 52.
138 Ibid, p. 162.
139 Raymond Aron, *Le Marxisme de Marx*, Paris, Editions de Fallois, 2002, p. 338.
140 Karl Marx, *Manifest des Kommunistischen Partei*, Kückenshagen, Scheunen-Verlag, 2000, p. 12.
141 Ibid, pp. 14–15.
142 Ibid, p. 25.
143 Lucian W. Pye, 'On Chinese pragmatism in the 1980s', *The China Quarterly*, no. 106, June 1986, p. 210.
144 Zhang, op. cit., p. 163.
145 Ibid, p. 116.
146 As I have already noted, market mechanisms are not something new in China. Such mechanisms existed in the past already under the Empire and during the first half of the twentieth century. See for example Bergère, op. cit.
147 Lieberthal, op. cit., p. 129.
148 Ibid, p. 137.
149 It is interesting to note that if this is the dominant interpretation, the figure of Chen Yun has its own supporters, who consider that Chen Yun was not necessarily a weak supporter of reforms, but a more careful and pragmatic one, considering that a too rapid and comprehensive trend of reforms would have produced several negative consequences both in terms of social structure and instability. See: Bachman, op. cit.
150 Consider the campaigns for release of the thought, democratization, reinforcement of legality, Four Cardinal Principles, campaigns against bourgeois liberalization, spiritual pollution, spiritual civilization, socialism with Chinese characteristics.
151 Zhang, op. cit., p. 177.
152 Hammer, op. cit., p. 97–8.
153 Ibid.
154 Albert Camus, *L'homme révolté*, Paris, Gallimard, 1998, p. 27.
155 Ibid.
156 Hammer, op. cit., p. 97.
157 Ibid, p. 99.
158 Wang Hui, 'Contemporary Chinese thought and the question of modernity', in *Social Text*, no. 55, Intellectual Politics in Post-Tiananmen China, Summer 1998, p. 9.
159 Jean-Luc Domenach, *Où va la Chine?*, Fayard, Paris, 2002, p. 33.
160 Quoted by Hammer, op. cit., p. 99.
161 Lieberthal, op. cit., p. 143.
162 Quoted by Domenach, op. cit., p. 34.
163 Zhang, op. cit., p. 185.
164 Domenach, op. cit., p. 35.
165 This qualification is based upon the fact that policies to rebalance the Chinese economy and society (which will be the goal clearly defined by Hu Jintao) started already under Jiang Zemin, especially investments in infrastructure in western Chinese provinces, and the setting up of the new fiscal policy giving more financial resources and power to the Central Government.

166 Let us note that in the West we can distinguish an economic Right (represented by the entrepreneurs and their organizations) from a political Right (represented by elected politicians and their parties). Although both share basically the same values (i.e. they are both in favour of market economy and the elements of the rule of law that support market economy), there are some remarkable differences between them. The former, being in charge of managing the private companies, are more radically in favour of a 'free' market economy ('free' meaning that the government should interfere as little as possible in the economy), the latter, being subject to re-election by the citizens at relatively short intervals, are more open to the needs of that part of the electorate that profit less from the market economy, and are therefore in favour of the elements of the rule of law that protect those citizens, and as a consequence are more open to the implementation of public policies that favour these electors. Of course these right wing politicians are not as much in favour of social policies as the politicians of the centre and left wing parties.

167 This quotation is drawn from the official English translation published on the China Daily's website (www.chinadaily.com.cn, accessed 18 December 2002).

168 Zufferey, op. cit., pp. 65–6.

169 Zufferey, op. cit., p. 181, my translation from the French.

170 The length of the two speeches is almost the same; this means that we will not have to standardize the data and we will simply use the frequencies, i.e. number of times Jiang and Hu refer to the indicators of different types of legitimacy that I will define in the following paragraphs.

171 This methodology may look rather simple to the specialists of discourse analysis. It is, on the contrary, my opinion that the results I present in the following paragraphs obtained thanks to this simple methodology clarify to a satisfactory and interesting level the changes introduced by the present Chinese leadership in its ideological discourse.

172 It is true that he mentions eight times the 'important thought of the Three Represents', but without mentioning the name of Jiang.

173 The exact sentences in the English translation are: (1) '… build a socialist state under the rule of law'; (2) '… improve the socialist legal system in order to build a socialist country under the rule of law'; and (3) '… attach equal importance to both material and spiritual civilization and run the country by combining the rule of law with the rule of virtue'. It is also true that Jiang mentions once the value of 'fairness' that can be considered an equivalent of 'equity'. The exact sentence is: 'We should give priority to efficiency with due consideration to fairness … and guarding against excessive disparity of income while opposing equalitarianism'.

174 Three paragraphs from Hu Jintao's speech are quite clear about this: (1) 'A proper balance will be struck between efficiency and equity in both primary distribution and redistribution, with particular emphasis on equity in redistribution. We will gradually increase the share of personal income in the distribution of national income, and raise that of work remuneration in primary distribution'; (2) 'There are still many problems affecting people's immediate interests in areas such as employment, social security, income distribution, education, public health, housing, work safety, administration of justice and public order; and some low-income people lead a rather difficult life'; and (3) 'A relatively comfortable standard of living has been achieved for the people as a whole, but the trend of a growing gap in income distribution has not been thoroughly reversed, there are still a considerable number of impoverished and low-income people in both urban and rural areas, and it has become more difficult to accommodate the interests of all sides. Efforts to balance development have yielded remarkable results, but the foundation of agriculture remains weak, the rural areas still lag behind in development, and we face an arduous task to narrow the urban–rural and interregional gaps in development and promote balanced economic and social development.'

175 For the new trends in Confucianism see Zufferey, op. cit., chapters 12, 13, pp. 221–50, as well as the works of Daniel A. Bell quoted in note 38.

**2 Deng's strategy of economic development**

1 For the following paragraphs I make extensive use (with several important additions and changes) of a long paper prepared for my seminar on China's reforms at the University of Geneva 2004–5: Niklaus Nuspliger, Vincent Pasquier and Matthias Riggenbach, *Le dengisme et les réformes: vers une marche socialiste*, Geneva, Department of Political Science, 2005, unpublished seminar long paper.
2 David S. G. Goodman, 'Deng Xiaoping', in Colin Ackerras, Donald H. McMillen, and Andrew Watson (eds), *Dictionary of the Politics of the People's Republic of China*, Taylor & Francis, London, Routledge, 2000, pp. 82–3.
3 Ibid, p. 83.
4 Ibid.
5 Ibid, p. 84.
6 Goodmann, op. cit., p. 83, considers that Deng was 'strongly pragmatic but not a pragmatist'.
7 Ibid.
8 That is, organizations based upon formal and technical rules, hierarchies, competence and the practice of secrecy. See on this important point, based upon the works of Max Weber, Paolo Urio, *Le role politique de l'administration publique*, Lausanne, LEP, 1984, pp. 45–59, 217–82.
9 One of the most recent, and important domains, is the health system, that I will discuss later in this and in the next chapter.
10 Maintaining the leadership of the Party is an instrumental goal, in the sense that Deng, as well as his successors, consider that the Party is presently the sole organization capable to lead China on the road of reforms.
11 This will very often result in the numerous references to the 'Chinese characteristics' in the speeches of the Chinese leaders (see chapter 1 in this book). Let us remark, however, that the transfer of good practices is always made by taking into consideration the Chinese or, more precisely, the local conditions. As China is not a uniform country, different policies will be implemented in different parts of the country. One of the most important policies following this strategy today is social security, for which, after years of local experimentation, a dual model is about to be defined: one for the urban areas and one for the rural ones.
12 Urio, op. cit, pp. 217–82.
13 The other conditions are the following: competition, i.e. many economic actors on the side of both demand and supply; no obstacles to the entry into the market or to exit from the market; and homogeneity of the products to be negotiated in a specific market.
14 Randall Peerenboom, *China's Long March Toward Rule of Law*, Cambridge, Cambridge University Press, 2002, and *China Modernizes: Threat to the West or Model for the Rest?*, Oxford, Oxford University Press, 2007.
15 Kenneth Lieberthal, 'The reform era', in *Governing China: From Cultural Revolution Through Reform*, New York, Norton, p. 135.
16 Nevertheless there has been a considerable opening up of the Chinese mass media during the reform era. Many topics that the media were not allowed to deal with during the Mao era are now regularly presented and discussed; as a consequence also the profession of journalist has undergone some remarkable changes. See, for example, Li Xiguang, *Journalism in Transition: Critical Studies of Chinese Press*, Beijing, Draft copy, kindly provided by the author.
17 In December 2006 the State Assets Supervision and Administration Commission (SASAC) published a list of seven sectors critical to the national economy and in which public ownership is considered essential: armaments, electrical power and distribution, oil and chemicals, telecommunications, coal, aviation, and shipping. Moreover, to reorient state capital away from non-critical areas to priority sectors, SASAC said China will reduce the number of central SOEs by at least one-third to between 80 and

100 before 2010 through mergers. Finally, it announced that 'China aims to build between 30 and 50 large, internationally competitive companies by 2010'. According to Xinhua, updated: 18 December 2006.

18 For more detail see Lieberthal, op. cit., pp. 123–53; for more recent accounts, but ones that confirm Lieberthal's analysis, see James Riedel, Jin Jing, and Gao Jian, *How China Grows*, Princeton, Princeton University Press, 2007, pp. 1–17, and Marie-Claire Bergère, *Capitalismes et capitalistes en Chine: Des origines à nos jours*, Paris, Perrin, 2007, pp. 223–41.

19 Lieberthal, op. cit., pp. 145–6.

20 Ibid, pp. 146–7.

21 Ibid, p. 147.

22 And it is possible, as suggested by Lieberthal, that the fact that China was not able to fully satisfy these expectations is one of the reasons that explains the events of Tiananmen in 1989, Ibid.

23 See for example Wang Xiaoying, 'Post-Communist personality: the spectre of China's capitalist market', *The China Journal*, no. 47, January 2002, pp. 1–17.

24 Lieberthal, op. cit., p. 147–8.

25 Ibid, p. 148–9.

26 Ibid.

27 The central plan was abolished in the early 1990s, according to Riedel *et al*., op. cit., p. 11.

28 The economic actors acquire goods at the low price set by the plan, and then sell them at the market price when the quantity set by the plan has been sold.

29 Lieberthal, op. cit., p. 149–53.

30 The legal structure and the economic structure being functionally interdependent.

31 Peerenboom, *China's Long March Toward Rule of Law*, op. cit. and *China Modernize: Threat to the West or Model for the Rest?*, op. cit.

32 Yasheng Huang, *Selling China*, Cambridge, Cambridge University Press, 2003.

33 Francis Fukuyama, *The End of History and the Last Man*, New York, Free Press, 1992. Against Fukuyma's thesis see: Robert Kagan, *The Return of History and the End of Dreams*, London, Atlantic Books, 2008.

34 The World Bank has posted several reports confirming this opinion.

35 Data elaborated from Zheng Yongnian, 'Development and democracy: are they compatible in China?', *Political Science Quarterly*, vol. 109, no. 2, Summer 1994, pp. 235–59.

36 World Bank, *China 2020*, Washington, DC, 7 volumes, vol. 1, 1997, p. 4. On the development of China's economy since 1978 there are not only very pessimistic analyses like the one by Gordon G. Chang, *The Coming Collapse of China*, New York, Random House, 2001, but also several more balanced and objective ones. There is a vast literature by Chinese scholars working in mainland China available in English. I will more particularly use the publications of the Centre for China Study, directed by Hu Angang. See in particular: Hu Angang, *Economic and Social Transformation in China*, London, Routledge, 2007, and *Roadmap of China's Rising*, Beijing, Centre for China Study, Tsinghua University, 2007, to be published by Routledge, October 2009. See also, for ex. from other Chinese scholars: Chi Fulin, *Reform Determines Future of China*, Beijing, Foreign Language Press, 2000, *China's Economic Reform at The Turn of the Century*, Beijing, Foreign Language Press, 2000, and *Starting Point: Thirty Years of Reform in China*, Beijing, Foreign Language Press, 2008; and on the negative consequences of economic reforms: Wang Shaoguang and Hu Angang, *The Chinese Economy in Crisis: State Capacity and Tax Reform*, New York, M.E. Sharpe, 2001, and Wang Shaoguang and Hu Angang, *The Political Economy of Uneven Development: The Case of China*, New York, M.E. Sharpe, 1999.

From Western scholars, for a general overview of China's economic transformation the best (in my opinion) recent account by a Western scholar is: Barry J. Naughton, *The Chinese Economy: Transition and Growth*, Cambridge, The MIT Press, 2007; and for

an account that retraces the reforms from the perspective of the development of the new 'Chinese capitalists' see Marie-Claire Bergère, *Capitalismes et capitalistes en Chine. Des origines à nos jours*, Paris, Perrin, 2007. From other Western scholars, see for example the works of Peter Nolan, *China and the Global Business Revolution*, Houndsmill, UK, Palgrave, 2001, *China and the Global Economy*, Houndsmill, UK, Palgrave, 2001, *Transforming China: Globalization, Transition and Development*, London, Anthem Press, 2004, and *China at the Crossroads*, Cambridge, UK, Polity Press, 2004; see also Nicholas R. Lardy's works: *China's Unfinished Economic Revolution*, Washington, DC, Brookings Institution Press, 1998, and *Integrating China into the Global Economy*, Washington, DC, Brookings Institution Press, 2002. Books dealing with economy in a larger perspective are also worth consulting; for example: Jean-Luc Domenach, *Où va la Chine?*, Paris, Fayard, 2002; for the Chinese political system, in addition to the book of Lieberthal, op. cit., see Tony Saich, *Governance and Politics in China*, New York, Palgrave, 2001; Zheng Shiping, *Party vs. State in Post-1949 China*, Cambridge, Cambridge University Press, 1997; Lin Yi-min, *Between Politics and Markets, Firms, Competition, and Institutional Change in Post-Mao China*, Cambridge, Cambridge University Press, 2001. On the development of the private sector see Ross Garnaut and Ligang Song (eds), *China's Third Economic Transformation: The Rise of the Private Economy*, London, Routledge, 2004. See also: Gregory C. Chow, *China's Economic Transformation*, Oxford, Blackwell, 2002. For the changes in China's public management: Peter Nan-Shong Lee and Carlos Wing-Hung Lo (eds), *Remaking China's Public Management*, Westport, Connecticut & London, Quorum Books, 2001.

37 World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda. An Assessment of Poverty and Inequality in China*, March 2009, p. iii, available on the Bank's website (www.worldbank.org, accessed 5 September 2009).

38 Huang, op. cit.

39 This opinion is at the origin of the conversion thesis according to which China will (or should) necessarily adopt a Western-style political system following the introduction of market economy. See against this opinion the excellent introduction to China by Rana Mitter, *Modern China: A Very Short Introduction*, Oxford, Oxford University Press, 2008, especially pp. 11–12, but the entire book is worth reading in this perspective as it reconsiders many entrenched (and wrong) ideas about the modernization of China from the Empire to Hu Jintao's China, and shows that Chinese modernity has a very long history. See also Dana Mitter, *A Bitter Revolution: China's Struggle with the Modern World*, Oxford, Oxford University Press, 2004.

40 On the debate about China's modernity see Zhang Xudong (ed.), *Whither China: Intellectual Politics in Contemporary China*, Durham (USA), Duke University Press, 2001; Zhang Xudong, *Chinese Modernism in the Era of Reforms. Cultural Fever, Avant-Garde Fiction, and the New Chinese Cinema*, Durham and London, Duke University Press, 1997; and Arif Dirlik and Zhang Xudong (eds), *Postmodernism and China*, Durham and London, Duke University Press, 2000; Norton Wheeler, 'Modernization Discourse with Chinese Characteristics', *East Asia*, Fall 2005, no. 3, pp. 3–24.

41 See for example: Emmanuel Todd, *L'invention de l'Europe*, Paris, Seuil, 1990; and Youssef Courbage and Emmanuel Todd, *Le rendez-vous des civilisations*, Paris, Seuil, 2007.

42 This is based upon the most favourable calculation done by the US Central Intelligence Agency, that places China's per head GDP at US$ 6,800. Compare with the less generous calculation by the Economist Intelligence Unit presented in Table 2.2. Whichever is the preferred calculation, the ranking of China's per capita GDP will not be substantially different.

43 Amartya Sen, *Commodities and Capabilities*, Oxford, Oxford University Press, 1997; *On Economic Inequality*, Oxford University Press, 1997; and *Development as Freedom*, Oxford, Oxford University Press, 1999.

44 I use the data from UNDP, *Human Development Indices: A Statistical Update 2008* based upon 2006 data. UNDP considers three groups of countries: high, medium and low human development.
45 The UNDP Human Development Indicator has attracted some criticism, especially because 'human development is a complex concept with multiple facets that can not be easily captured by one single indicator or any summary measure'. Moreover, HDI 'may mask the imbalance among the three development aspects'. By using cluster analysis techniques Yang Yongheng and Hu Angang provide, in a historical perspective, an in-depth one-dimensional and multi-dimensional analysis of the disparities between four tiers of Chinese provinces. Each tier regroups provinces similar to each other in terms of health, education and income. I will come back to the results of this research later in this chapter when I will consider the disparities among Chinese provinces. Yang Yongheng and Hu Angang, 'Investigating Regional Disparities of China's Human Development with Cluster Analysis: A Historical Perspective', *Social Indicators Research*, Springer Science & Business Media, no. 86, 2008, pp. 418–19.
46 I borrow this sub-title from a famous article by Hu Angang that has become a chapter in Hu Angang, *Economic and Social Transformation in China*, op. cit., chapter 1: 'Why has China's economy grown so fast?', pp. 9–32.
47 See references of note 36 above.
48 Riedel *et al*., op. cit. James Riedel is Professor of International Economics at Johns Hopkins University's School of Advanced International Studies., Jing Jin is Director of China Strategy for UBS Hong Kong and a professor at Beijing's Central University of Finance and Economics. Jian Gao is Vice-Governor of the China Development Bank in Beijing.
49 At the beginning of the reforms the workforce in rural China amounted to about 80 percent of total workforce compared to 90 percent working in SOEs in Russia when the Soviet Union collapsed.
50 Ibid, p. 29.
51 Ibid, pp. 29–30.
52 By referring to the role of government these authors confirm the analysis of scholars like Nobel Prize-winner Joseph Stiglitz and Ha-Joon Chang. See Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development*, Oxford, Oxford University Press, 2005, and Joseph E. Stiglitz, *Making Globalization Work: The Next Steps to Global Justice*, London, Penguin, 2006; Ha-Joon Chang, *Bad Samaritan: The Myth of Free Trade and the Secret History of Capitalism*, New York, Bloomsbury, 2008; and Ha-Joon Chang (ed.), *Rethinking Development Economics*, London, Anthem Press, 2003, *Globalization, Economic Development and the Role of the State*, New York, Zed Books, 2003.
53 Riedel *et al*., op. cit., pp. 33–4.
54 Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*, Harvard, Harvard University Press, 1962.
55 In particular the data made available by Angus Maddison, *The World Economy: A Millennial Perspective*, Paris, OECD, 2001, as well as other data provided by international organizations such as the World Bank and by the Chinese Statistical Bureau.
56 'The per capita GDP is used as the variant of output; capital is the indicator of per capita capital stock; labour is the employment participations indicator to reflect the impact of the population change on labour supply; institutions is the institutional accumulation indicators (ten indicators); knowledge is the knowledge accumulation indicators (ten indicators).' For more details, including statistical data and analysis see Hu Angang, *Economic and Social Transformation of China*, op. cit, chapter 1, pp. 9–32.
57 Ibid, p. 17.
58 See data presented in Table 2.1.
59 Data are presented in Hu Angang, ibid, p. 20
60 Ibid, p. 19.

61 Ibid, p. 21 for the data and Hu's comment.
62 I recall that at the end of the first chapter I pointed to the speech of President Hu Jintao at the 2007 Party Congress, where he stressed the necessity for China to become an endogenous innovator in all domains.
63 See for example: Naughton, op. cit.; Loren Brandt and Thomas G. Rawski (eds), *China's Great Economic Transformation*, Cambridge, Cambridge University Press, 2008; Sharid Yusuf, Kaoru Nabeshima, and Dwight H. Perkins, *Under New Ownership: Privatizing China's State-Owned Enterprises*, Stanford University Press & The World Bank, 2006; Nolan, Peter, *Transforming China*, op. cit.
64 Bennis So Wai Yip, 'Privatisation', in Tubilewicz, Czeslaw (ed.), *Critical Issues in Contemporary China*, London Routledge, 2006, p. 58.
65 This is not to say that the local government (especially the most developed provinces and big municipalities) do not have the power to limit (and/or distort) the implementation of the policies set up by the Central Government. This capacity of local government to oppose the will of the Central Government does not contradict our interpretation. On the contrary, it is this capacity that is at the origins of collective enterprises belonging in fact to local authorities.
66 Yasheng Huang, the author of *Selling China*, op. cit., in an article published in the *Financial Times* (2 February 2007, 'Comment: China is no haven for entrepreneurs') writes:

> In an analysis of the ownership structure of China's economy, two Organisation for Economic Co-operation and Development economists, Sean Dougherty and Richard Herd, used a detailed database of industrial companies maintained by China's National Bureau of Statistics, which identifies each company's controlling shareholder. The biggest difficulty in assessing the ownership structure of China's economy is that it is often unclear who controls a company. The economists' conclusion is that in 2003 — the last year of their data — 52 percent of the industrial value-added was generated by private companies. However, two key questions are: is 52 percent an accurate figure and if so, does it imply an economy predominately based on private ownership? In their research, the OECD economists made a crucial assumption — they classified as 'private entities' companies that were controlled by individuals, domestic 'legal persons' or foreign companies. While it makes sense to classify companies controlled by individuals or foreign companies as 'private', it is another matter to assign companies controlled by domestic legal persons (an entity that can legally enter into a contract) to the private sector.

This analysis has been confirmed by Huang Yasheng's last book *Capitalism with Chinese Characteristics: Entrepreneurship and the State*, New York, Cambridge University Press, 2008, pp. 13–19. In spite of this, Huang considers that the private sector is the main driver of China's economic development.
67 Ding Lu, 'China's Telecommunications infrastructure building', in Takatoshi Ito and Anne O. Krueger (eds), *Deregulation and Interdependence in the Asia-Pacific Region*, Chicago, University Press of Chicago, 2000, p. 393, quoted by Lin Chun, 'Against privatization in China: a historical and empirical argument', *Journal of Chinese Political Science*, vol. 13, no. 1, 2008, p. 24, note 42. And Lin Chun comments: 'This is one of the cases which prove that positive results can be attained through management and organizational reforms rather than property transfer' (ibid).
68 Lin Chun further comments that 'the nation's largest SOEs turned around from struggling over losses to making $78.5 billion in profits in 2005 […] In 2006, central SOEs earned $88 billion in the first 11 months, up 18.9 percent over the same period in 2005 […] In fact large SOEs are rarely loss-makers; a large share of SOEs losses in China is concentrated in a small number of sections' (ibid, p. 24, note 43).
69 From the World Bank website: *Private Sector Development Crucial to China's*

*Innovativeness Say a World Bank Report*, www.worldbank.org (accessed 18 May 2009). See the full report: Chunlin Zhang, Douglas Zhihua Zeng, William Peter Mako, and James Seward, *Promoting Enterprise-led Innovation in China*, Washington, DC, World Bank, 2009, also available at www.worldbank.org (accessed 5 September 2009).

70 For a general analysis of the role of the state as an actor of economic development, both as a protector of infant industry and a promoter of innovation see Paul Bairoch, *Economics and World History: Myths and Paradoxes*, New York, Harvester Wheatsheaf, 1993 with many examples of the strategy followed by US and UK in the early stages of their economic development; for a detailed analysis of the role of the state in the development of American economy see Villemeur, Alain, *La croissance américaine ou la main de l'Etat*, Paris, Seuil, 2007.

71 It is interesting to note that this objection was mainly based upon the Confucian analogy between the family and all the other sectors of social activities, including economy and polity. This happened several years before Confucian ideas came again into light in official Chinese discourse, showing that in fact they never were totally absent from the mind of Chinese people, including senior cadres.

72 Xiang Bing and Teng Bingsheng, 'China's start-ups grow up', *Far Eastern Economic Review*, September 2008, pp. 53–5.

73 For example: Liu Chuanzhi (Lenovo), Zhang Ruimin (Haier), Ren Zhengfei (Huawei), and Li Dongsheng (TCL).

74 For example; Neil Shen (Ctrip), Chen Tianqiao (Shenda), Jason Jiang (Focus Media), Jack Ma (Alibaba.com), and Robin Li (Baidu.com). Notice the Americanization of their names.

75 Nevertheless, I should like to point out that the Haier University I visited in 2005 combines modern management tools with traditional Chinese strategies and wisdom.

76 Notwithstanding, this opinion is contradicted by the State Assets Supervision and Administration Commission (SASAC) that declared in December 2006 that China intended to reorient state capital away from non-critical areas to priority sectors, to reduce the number of central SOEs by at least one-third to between 80 and 100 before 2010 through mergers, and to build between 30 and 50 large, internationally competitive companies by 2010, according to Xinhua Agency. Updated: 18 December 2006.

77 Jie Chen and Bruce J. Dickson, 'Allies of the state: democratic support and regime support among China's private entrepreneurs', *The China Quarterly*, December 2008, pp. 780–804. It is interesting to note that control variables such as gender, age, education and size of the firm and the local level of economic development were not significant predictors of regime support. Nevertheless, regime support fell greater the distance being from Beijing (ibid, pp. 801–3). For an overall analysis of the development of the new entrepreneurs and their relationships with the Party and state see Bruce J. Dickson, *Red Capitalists in China. The Party, Private Entrepreneurs, and Prospects for Political Change*, Cambridge, Cambridge University Press, 2003, and *Wealth into Power: The Communist Party's Embrace of China's Private Sector*, New York, Cambridge University Press, 2008.

78 Paolo Urio, 'The provision of public services in the PRC in the age of reform: reconciling state, market and civil society', paper presented at the International Symposium on Public Service and Government Reform, Haikou, China, October 30–31, 2004.

79 World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda*, op. cit.

80 Let us recall that already during the Imperial era there occurred considerable environmental damage.

81 Let me recall that the one-child policy is in principle strictly enforced for urban residents and government employees. Nevertheless, there are some exceptions that allow having a second or even a third child. In urban areas it is possible to have a second child if the first child is disabled, or if both parents work in high-risk occupations, or are themselves from one-child families. In rural areas, the implementation of this policy

is more relaxed. For example, if the first child is a girl, a second child is generally allowed. For some ethnic minorities and for remote and under-populated areas, even a third child is allowed.

82 World Bank, 2009, op. cit., p. viii. Under the planned economy of the Mao era the communes were responsible not only for organizing production and distribution, but also for providing social services, including health care. These services were financed by contributions from rural families (about 0.5 to 2 percent of their income), by the villages (from their income from agriculture and rural enterprises), and subsidies from higher-level government used mostly to pay for health workers' salaries and medical equipment (ibid, p. 125). The fundamental institutional change introduced by the reforms in the rural areas was: 'the land reform characterized by the implementation of the household responsibility system in rural China, whereby farm households became residual claimants to output by receiving land use rights in return for delivery of a certain quota of grain to the village and meeting their tax obligations' (ibid, p. 78).

83 I will come back to these problems in chapter 3.

84 I will deal with this last point in the fourth and final chapter of this book.

85 See references in note 36 above, and for the Chinese scholars: Hu Angang, *Population and Development*, Beijing, Automation Institute under the Chinese Academy of Sciences, June 1988; Hu Angang and Zou Ping, *China's Population Development*, Beijing, China's Science and Technology Press, 1991; Hu Angang, Wang Yi, *et al*., *Survival and Development. A Study of China's Long-Term Development*, Beijing and New York, Science Press, 1992. This report has been circulating internally since end 1988 – beginning 1989: a member of the Standing Committee of the Political Bureau of CPC read the report. A copy was given to Deng Nan, who was working within the National Committee of Science and Technology and who transmitted it to her father (Deng Xiaoping), and Deng added highlighted postils.

86 This goal was to be achieved in three steps: the first step consisted in doubling GDP during the 1980s; then with the second step GDP should be doubled by the end of the twentieth century; finally, the third step should double again GDP twice during the first 30 to 50 years of the twenty-first century.

87 Conference of Hu Angang at Tsinghua University, January 2005.

88 It goes without saying that the causal links suggested are purely qualitative in most cases. To our knowledge there is today no quantitative model able to take into consideration the complexity of these links. There is nevertheless sufficient empirical evidence that the arrows connecting the sets of variables, represented in Figure 2.2 by the rectangles, are reasonably based upon a causal relationship.

89 I understand that taxation is more important, and in any case must precede expenditures. This has become a crucial point when the fiscal decentralization of the 1980s showed that the Central Government did not possess the financial means needed to finance the policies necessary not only for sustaining the economic development, but also and above all in order to finance the policies needed to correct the unwanted consequences of the introduction of market mechanisms. As I have already noted above, only an efficient economic system can provide the state with the financial basis from which it can draw the financial resources it needs.

90 See, for example: Jiwei Lou (ed.), *Macroeconomic Reform in China*, Washington, DC, The World Bank, 1997.

91 Of course, another way of realizing this objective would be to hire talents from the private sector in China and abroad, both foreigners and (more likely) Chinese people who received university training abroad and have also been working in Western countries. It seems that, at least for the moment, this strategy is practiced more frequently by Chinese private companies and SOEs than by public bureaucracies.

92 This is particularly evident if we take data from about 1980 to 2007 about income distribution, poverty rate, employment, crime, and health in Western countries and we compare countries with strong privatization policies and a relatively weak welfare

state against those with a strong welfare state and limited privatization policies. See for example Paolo Urio, '*La gestion publique au service du marché*', in Marc Hufty (sous la direction de), *La pensée comptable. Etat, néolibéralisme, nouvelle gestion publique*, Paris, Presses Universitaires de France, 1999, pp. 91–124.

93 World Bank, *China: Promoting Growth with Equity*, Washington, DC, 2003, p. 10.

94 See on this important point Timothy Smeeding, '*Globalization, Inequality and the Rich Countries of the G-20: Evidence from the Luxembourg Income Study (LIS)*', July 2002 (available on the LIS website: www.LIS.org), '*Poor People in Rich Nations: The United States in Comparative Perspective*', 2006 (available on Smeeding's website, University of Syracuse, USA: www-cpr.maxwell.syr.edu/faculty/smeeding/).

95 Li Qiang, 'An analysis of push and pull factors in the migration of rural workers in China', *Social Sciences in China*, January 2003 (electronic copy provided by author), and 'Stratification in China's resident registration and peasant workers' social status', *Social Sciences in China*, Spring, 2002 (electronic copy provided by author):

> According to my prestige and status surveys since 1996, peasant-workers are at the bottom of the social hierarchy. Peasants doing business in cities are ranked 92 in 100 occupations, while peasants finding employment in cities, 94. The last 10 in the list are typical occupations for peasant-workers, such as gatekeepers, carters, waste collectors, housemaids, porters and guards. Ironically, these peasant-workers are elites with apparently better personal qualities and abilities than those remaining in villages. They belong to a most active age group. They usually have a higher level of education, and are particularly capable in economic activities. (p. 3 of the electronic version).

96 'Chinese government will protect migrant workers legal rights', Xinhua, Updated: 1 March 2007, and Fang Ruifend, Erica Miller, Huong Trieu, and Yang Xiaoying, 'Migrant labor and social welfare policy', paper prepared for the International Economic Development Program, Ford School of Public Policy, University of Michigan, April 2006.

97 Alan De Brauw, and John Giles, 'Migrant labor markets and the welfare of rural households in the developing world: evidence from China', World Bank, February 10, 2008. See also Tang Wenfang and Yang Qing, 'The Chinese urban caste system in transformation', *The China Quarterly*, December 2008, pp. 759–79, who considers that 'while migrant workers continue to occupy more blue-collar and service jobs than urban residents, their economic, social and political status has improved' (p. 759). It is also interesting to note that the Chinese Trade Unions have admitted 47 representatives of migrant workers to the last National Congress of October 2008 (*China Daily*, October 17, 2008) which shows that their status and needs are being recognized.

98 Let us remark that at the same time the government has publicly declared that it will take measures to accelerate the urbanization process in China. This is very likely because the urban areas are supposed to create more relatively well-paid jobs than the rural areas, and in any case the process of urbanization is the inevitable consequence of the development of a modern economy (see Table 2.1).

99 Hu Angang, conference at Tsinghua University, op. cit.

100 See chapter 1 of this book.

101 Le me say quite clearly that the categorization of Chinese society is not a simple task for a Western scholar. In fact we generally use our own 'Western categories' and apply them to the analysis of other cultures. This will become apparent when we categorize the Chinese intellectual class. This should come with no surprise, after what I have said in the first chapter: intellectuals are very much linked, maybe more than anyone else, to the development of a country's culture. Nevertheless, as China is clearly on its way to modernity (and part of this change being under the influence of globalization)

the use of categories that are generally considered valid by the global academia seems to have some justification.

102 The distinction between these two components of the power elite (political and economic) is rather artificial, as there is a considerable overlapping between them. Nevertheless I use here the accepted distinction based upon the main role played by members of these two groups (politicians or managers/owners of companies). The same phenomenon of overlapping exists in the West, even if with different modalities.

103 A young Chinese intellectual has recently drawn my attention to the fact that the classification of intellectuals I propose here is strictly linked to the domain of economics and politics, and this runs the risk of neglecting other types of intellectuals. Moreover, according to this source, and also linked to the domains of economics and politics, Guan Zhixiong has classified Chinese intellectuals into four groups.

1. Reform School, such as Zhang Wuchang, Yang Xiaokai. They insist not only on the market-oriented reform, but also on political democracy and constitutionalism.
2. Mainstream School, such as Wu Jinglian, Lin Yifu, Fan Gang, etc. They insist on the market-oriented reform, however, their attitude on the political reform is much more prudent than the reform school.
3. Non-Mainstream School, such as He Qinglian. They pay more attention to the social fairness and justice and hope to develop the democracy to combat corruption.
4. The New Left, such as Hu Angang. Even this classification cannot avoid some difficulties and ambiguities. For example Hu Angang is classified by some observers as a statist or neo-statist, being one of the first (with Wang Shaoguang) to propose a centralization of the Chinese fiscal system in order to give more power to the Central Government (e.g. Joseph Fewsmith, *China Since Tiananmen: The Politics of Transition*, Cambridge, Cambridge University Press, 2001, p. 132) whereas some others consider him as a representative of the New Left, or even 'the beacon theoretician of the Marxist wing of the Party' (for example Agnès Andrésy, *Le Président chinois Hu Jintao. Sa politique et ses réseaux. Who's Hu?*, Paris, L'Harmattan, 2008, p. 71 (my translation from the French). Knowing Hu Angang's writings and having had discussions with him on many occasions, I would also attribute to him a very marked sense of justice and equity. Moreover, while being very positive about the economic success of market-oriented reforms, he also is very much in favour of reforms aimed at correcting the main negative consequences of economic development such as disparities, pollution, etc. Finally, his condemnation of corruption is definitely one of the most radical I know (see Hu Angang, 'Corruption: an enormous black whole: public exposure of the economic costs of corruption', chapter 11 of Hu Angang, *Economic and Social Transformation in China*, London, Routledge, 2007, pp. 217–23). But now, if we accept all this, where do we classify Hu Angang? And we could do the same for other Chinese intellectuals. See also Simon Shen, 'The response of Chinese intellectuals to the US War on Terror', *Journal of Chinese Political Science*, vol. 12, no. 3, 2007, pp. 238–80.

104 I use the workforce instead of the total population, as the major source of GDP per capita (which is used for identifying the middle class) comes from the economy and for the majority of middle-class people from the labour market.

105 Diana Farrell, Ulrich A. Gersch and Elisabeth Stephenson, 'The value of China's emerging middle class', *The McKinsey Quarterly*, 2008 Special Edition, pp. 62–9.

106 Ibid, p. 64.

107 Lu Xueyi, 'On the changes and developments of the social structure of China', *Journal of Yunan Nationalities University*, vol. 23, no. 5, 2006, pp. 28–35.

108 I will come back to this problem in the next chapter.

109 Because of poor statistical data about migrant workers, the estimated number of this category cannot be calculated separately from the other categories of workers and

employees mentioned above. Therefore the 120 to 200 millions of migrants are included in the categories under 'workers, employees and peasants'. According to some more recent estimates by the China Daily there are today 150 million migrant workers (*China Daily*, 17 October 2008) or even more than 200 million (*China Daily*, 28 October 2008). The World Bank admits the difficulties of estimating the number of migrant workers; nevertheless, it has recently estimated their number at about 150 million, World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda*, op. cit., p. x.

110 Lu Xueyi, op. cit.

111 From the point of view of a classification of social classes it seems legitimate to consider also the 'unemployed category' as it is very likely composed of people not employed, but belonging to the categories of former workers, employees or peasants.

112 According to Xinhua Agency, http://news.xinhuanet.com/misc/2008–03/08/content_7746540.htm, consulted 8 March 2008.

113 It is interesting to note that the official Xinhua Agency has recognized the appearance of several new classes and the contribution they give to economic growth:

> The number of persons belonging to the new social classes reaches about 75 million and the amount of capital under their control is about 10 trillion. The new social classes are mainly comprised of the persons in the non-state sectors and intellectuals freely choosing jobs, just like the employees in private enterprises, individual businesses, lawyers, certified public accountants, certified public valuators, certified tax agents and so on. The new social classes contribute so much to the economic growth and the proportion of private economy exceeds 1/3 of the size of GDP. (ibid)

114 I am grateful to Liu Dehao, PhD student at Renmin University, Beijing, for the information and references upon which this part is based.

115 This is contrary to the generally accepted opinion that Mao was against family planning. It is true that only in September 1980 the third session of the Fifth National People's Congress (NPC) officially approved the State Council's policy of encouraging one couple to have one child, but family planning was progressively implemented already during Mao's era. The history of this policy is a good example of the Chinese way of discussing policy options, of adopting a solution, of implementing it progressively and with a certain amount of flexibility, taking into consideration the power relationships within the political elite, the objective characteristics of the Chinese situation, and the different situations of the people concerned, whether they live in urban or rural areas, or belong to ethnic minorities, for example. For a detailed history of the emergence and implementation of family planning in China see Hu Angang and Zou Ping, *China's Population Development*, op. cit, especially pp. 67–109. The information mentioned above is on page 93.

116 Wang J.Y., *Evaluation of the Fertility of Chinese Women During 1990–2000*. Theses collection of 2001, National Family Planning and Reproductive Health Survey, Beijing, China Population Publishing House, 2003, pp. 1–15.

117 Lu Xueyi, op. cit.

118 World Health Organization, *The World Health Report 2007*. Available online at: http://www.who.int/whr/2007.whr07_en.pdf (accessed 10 July 2009).

119 Therese Hesketh, Li Lu, and Zhu Weixing, 'The effect of China's one-child family policy after 25 years', *The New England Journal of Medicine*, vol. 353, no. 11, September 2005, pp. 1171–76.

120 Ping Huang and Frank Pieke, 'China migration: country study', prepared for the Regional Conference on Migration Development and Pro-poor Policy Choices in Asia, Dhaka, Bangladesh, June, 2003, pp. 22–4.

121 I will deal with this change of policy in the third chapter.

122 Xialolu Wang, 'Who's in first? A regional development index for the PRC', Asian Development Bank Institute Discussion Paper, no. 66, May 2007.
123 Wang uses the following indicators (that are in fact obtained by combining several sub-indicators): (1) productivity and research and development; (2) education; (3) public services; (4) infrastructure; (5) institutional development; (6) human development; (7) social equity; (8) social security; (9) environmental protection; and (10) natural resources and geographical location.
124 The fourth municipality under the direct supervision of the Central Government, Chongqing, belongs to the middle group with a score of 3.98.
125 Yang Yongheng and Hu Angang, 'Investigating regional disparities of China's human development with cluster analysis: a historical perspective', *Social Indicators Research*, Springer Science & Business Media, 86, 2008, pp. 417–32.
126 Ibid, p. 421. The seven provinces in the third tier are: Heilongjiang, Hebei, Xinjiang, Jilin, Hubei, Inner Mongolia and Hainan.
127 This tier comprises the majority of the Chinese provinces: Chongqing, Henan, Inner Mongolia, Jiangxi, Guangxi, Shaanxi, Sichuan, Anhui, Ningxia, Hebei, Xinjiang, Hubei, Shanxi, Hunan, Jilin, and Hainan.
128 Yongheng and Angang, op. cit., p. 431: 'Taking the first tier city Shanghai as an example: in 2005, per capita disposable income of an urban household (18,645 yuan) was nearly 2.5 times that of a rural household (8,247 yuan)'.
129 Hu Angang, *Great Transformations in China: Challenges and Opportunities*, Beijing, Tsinghua University, October 2004, p. 149, note 1.
130 Hu Angang, *China's New Development Strategy*, Zhejiang, People Publishing House of Zhejiang, 2004 (3rd edn, in Chinese). I am grateful to Yuan Ying for having translated several chapters of this book.
131 Hu Angang, *China's Economic Growth, Human Resources Development and Poverty Reduction (1978–2003)*, a contribution to the September 7–9, 2004 International Population and Development Forum (Wuhan City, Hubei Province, China): Eliminating Poverty, and Hu Angang, *Economic and Social Transformation in China*, op. cit., chapter 5: 'China's economic growth and poverty reduction (1978–2002), pp. 97–132; chapter 6: 'China's macro-economy and health', pp. 133–51, and chapter 7: 'Health insecurity: The biggest challenge to human security in China', pp. 152–66.
132 See notes 125 and 128 above.
133 Albert Keidel, *The Causes and Impact of Chinese Regional Inequalities in Income and Well-Being*, Carnegie Endowment for International Peace, December 2007.
134 The seven regions are: (1) Far West (comprising Xingjiang, Tibet, Qinghai, Gansu, and Ningxia); (2) North Hinterland (Heilongjiang, Jilin, Inner Mongolia, Shanxi, and Shaanxi; (3) South Hinterland (Sichuan, Chongqing, Guizhou, Yunnan, and Guangxi); (4) Central Core (Henan, Anhui, Jiangxi, Hubei, and Hunan), North Coast (Liaoning, Hebei, Beijing, Tianjin, and Shandong); (6) East Coast (Jiangsu, Shanghai, and Zhejiang); and (7) South Coast (Fujian, Guangdong, and Hainan), in Keidel, ibid, pp. 2–3.
135 Keidel, op. cit., pp. 5–6.
136 Keidel uses the revised World Bank's one-dollar-a-day standard to measure poverty by a consumption measure. China has not made consumption size distribution data available. 'China, however, has allowed the World Bank to post on its web site a statistical query facility called PovCal.ner, to allow approximation of China's consumption distribution for the national rural population', ibid, pp. 12–13. Keidel limits the analysis to data about five provinces, two coastal regions, i.e. Jiangsu (representing Central Core), and Liaoning (representing North Coast), and three inner regions, i.e. Hunan (for Central Core), Sichuan (for South Hinterland), and Shaanxi (for North Hinterland). Moreover, Keidel considers that one should take into account the changes in savings habits.
137 These are, in order of magnifying poverty rate: the Chinese Poverty line; the Old World Bank PPP $1/day Line; the New World Bank PPP $1/day Line; and the New World Bank PPP $2/day Line.

138 For example the rate of poverty estimated by the US government is about 12.5 percent based upon the official US methodology; but using the same data and applying the EU methodology the US poverty rate is about 17.5 percent.
139 World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda*, op. cit., p. iii. For the emergence of new forms of poverty see, for example, the works of Hu Angang mentioned in note 36 above.
140 Keidel, op. cit., p. 16.
141 I have already mentioned the results of a research by Alan De Brauw and John Giles, op. cit., that revealed that migrations from rural villages led to significant increases in consumption per capita, and this effect is stronger for poorer households within villages.
142 Gregory Clark, *A Farewell to Alms: A Brief Economic History of the World*, Princeton, Princeton University Press, 2007, shows that during the first phase of the Industrial Revolution the standard of living of the large majority of the population increased considerably, compared to the previous centuries, and that disparities between the upper class and the lowest ones diminished. Nevertheless, after the initial stage divergences between these classes developed again. This process has been further amplified after the introduction of neo-liberal policies in the 1980s and the 1990s. See Urio, '*La gestion publique au service du marché*', op. cit.
143 Keidel, op. cit., pp. 16–17.
144 James Riedel *et al*., op. cit. See also Richard Sanders and Chen Yang (eds), *China's Post-Reform Economy — Achieving Harmony, Sustaining Growth*, London Routledge, 2007, especially chapter 7 by Charles Goodhart and Xiaosong Zeng, 'China's banking reform', pp. 105–18, and chapter 8 by Shujie Yao and Zhongwei Han, 'Ownership reform, foreign competition and efficiency of Chinese commercial banks', pp. 119–43; and Barry J. Naughton, *The Chinese Economy: Transition and Growth*, op. cit., chapter 19, especially pp. 460–7.
145 Ibid, p. 16.
146 Ibid, p. 37.
147 In this sense see, for example, Harvey S. Rosen, *Public Finance* (4th edn), Chicago, Irwin, 1995, pp. 467–8, who quotes the work of Preston Miller and William Roberts, 'How little we know about deficit policy effects', in *Federal Reserve Bank of Minneapolis Quarterly Review*, Winter 2002, pp. 1–28, who reviewed the econometric studies of this issue and found conflicting results. See also Rosen, op. cit., pp. 74–83. Another surprising statement by these authors concerns the criteria for assessing the value of private vs. public capital: 'The value of private capital is measured by the profit it generates, while the value of public capital is measured by what it costs to create, not by the benefits that society derives from it' (ibid, p. 59).
148 Shujie Yao and Zhongwei, op. cit., pp. 121–22. The percentage of non-performing loans (NPLs) for the four big commercial banks was in 1999: 37.4 percent for the Bank of China (BOC), 23 percent for the China Construction Bank (CCB), 39.5 percent for the Industrial and Commercial Bank of China (ICBC), and 45 percent for the Agricultural Bank of China (ABC). See also Barry Naugthon, op. cit., p. 462.
149 Riedel *et al*., op. cit., p. 95.
150 See for example the analysis of the Chinese financial sector and of its relationship with SOEs, done by OECD, *China in the World Economy*, Paris, 2002, pp. 9–53, 231–68.
151 Riedel *et al*., op. cit., p. 67. They attribute the credit of this to the Chinese households, which responded to the material incentives brought by economic reforms to save a growing rate of their disposable income. See nevertheless the analysis of Keidel, op. cit., who provides a more detailed analysis of the savings habits of rural and urban households.
152 Keidel, op. cit., p. 18.
153 I develop this perspective in Paolo Urio (ed.), *Public Private Partnerships: Success and Failure Factors for In-transition Countries*, forthcoming, University Press of America (UPA), 2010, chapters 1, 2 and Conclusion.

154 The amount of money injected into the American financial system is comparable to the amount of money that China has used to bail-out the NPLs of its state-owned banks. According to the very serious American Reason think tank website, consulted 20 September 2008, *Reason* magazine's economist David Weigel writes:

> The bailout of the banking industry, which seems to be calming traders, could cost you $1,000,000,000,000. Yes, that's the right number of zeros […] Congressional leaders said after meeting Thursday evening with Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke that as much as $1 trillion could be needed to avoid an imminent meltdown of the US financial system.

155 But we have already seen that part of this unemployment is being absorbed by the urban areas thanks to the vast process of migration.
156 Conference at Tsinghua University, January 2005.
157 For the best account of the development of the Chinese legal system made by a Western scholar see the works of Randall Peerenboom quoted in note 14 in this chapter.
158 This section is mainly based upon Joan Bastide and Alexandre Sonnay, *Le role de la Chine dans le protocole de Kyoto*, unpublished Masters dissertation for the Masters degree in Asian Studies, University of Geneva, 2005, under the supervision of Prof. Paolo Urio.
159 For a historical analysis of the development and problems of the Chinese population see Hu Angang and Zou Ping, op. cit., pp. 14–15 for statistical data. For a Western view of Mao's policies regarding nature see Judith Shapiro, *Mao's War Against Nature*, Cambridge, Cambridge University Press, 2001, p. 31.
160 Blayo Y., *Des politiques démographiques en Chine*, Paris, INED, 1997.
161 Scientists who dared sustain Malthus's argument are disqualified and targeted as 'rightists'. Thus, Ma Yinchu, a prominent Chinese scholar and president of Peking University has suffered from a two-decade propaganda campaign, and was dismissed from his academic post after the publication in 1957 of a report entitled 'New demography', the product of years of in-depth research, which concluded that a too large population is detrimental to the development of China. See Hu and Zou, op. cit., especially chapters 2 and 3.
162 Blayo, op cit., p. 20.
163 See for example the analysis presented by Hu Sheng (ed.), *A Concise History of the Communist Party of China*, Beijing, Foreign Languages Press, 1994. pp. 532–88.
164 Annie Vallée, *Economie de l'environnement*, Editions du Seuil, Paris, 2003, p. 19. The availability of land per capita is only half the world average. See World Bank, *Clear Water, Blue Sky: China's Environment in the New Century*, World Bank, Washington, DC, 1997, p. 6.
165 I would like to mention that the case of the Chinese family policies is a good example of the difficulties of evaluating the validity of policy decisions. If from the environmental point of view (and its consequences on other dimensions of social organization) the pro-natalist policies of the Mao era have been a mistake, from the point of view of China's position within the world economy that emerged during the 1990s, the fact of having a large workforce (half of which are still in agriculture, but can be transferred to industry and service at a relatively low labour cost), is certainly one of the factors that explains the comparative advantage of China over its international competitors.
166 Today, energy sources are mainly coal, hydropower, and petrol.
167 Lesbre E., *Développement durable et environnement en Chine*, Article de la mission économique française en Chine, 06/2004, p. 19. Available online at: www.dree.org (accessed 6 June 2005).
168 Annie Vallée, op. cit., p. 20.
169 Lesbre E., op. cit., p. 6.
170 Ibid.
171 Ibid, p. 2.

172 Ibid, p. 7.
173 Jiang Kejun, *The Development and Climate, Country Study: China*, Energy Research Institute, mimeo, 2003, p. 2, and see Table 2.1.
174 To produce one ton of steel requires up to 100 tons of water, an average factory of electronic chips consumes 18 million tons of water per day, equal to the annual consumption of a city of 60,000 inhabitants.
175 Lesbre, op. cit., p.7.
176 TCE, or Tons of Coal Equivalent is a unit used to calculate and compare the emissions of different GHGs, i.e. greenhouse gases.
177 World Bank, *Clear Water, Blue Sky*, op. cit., p. 6.
178 Lesbre, op. cit., p. 24.
179 A carbon dioxide ($CO_2$) sink is a carbon dioxide reservoir that is increasing in size, and is the opposite of a carbon dioxide 'source'. The main natural sinks are: (1) the oceans' biological pump and (2) plants and other organisms that use photosynthesis to remove carbon from the atmosphere by incorporating it into biomass and releasing oxygen into the atmosphere. The process by which carbon dioxide sinks (natural and artificial) remove $CO_2$ from the atmosphere is known as carbon sequestration. Public awareness of the significance of $CO_2$ sinks has grown since passage of the Kyoto Protocol, which allows their use as a form of carbon offset.
180 Houghton R.A, Hackler J.L., 'Source and sinks of carbon from land use change in China', *Global Biogeochemical Cycles*, vol. 17, no. 2, 2003.
181 Conference at Tsinghua University, January 2005.
182 For more detail about the situation of China's public health see Hu Angang, *Economic and Social Transformation in China*, op. cit., chapter 6: 'China's macro-economy and health', pp. 133–51, and chapter 7: 'Health insecurity: the biggest challenge to human security in China', pp. 152–66.

**3 Correcting the negative consequences of economic development**

1 Hu, Angang, Conference at Tsinghua University, January 2005.
2 This goal was to be achieved in three steps: the first step consisted of doubling GDP during the 1980s; then with the second step GDP should be doubled by the end of the twentieth century; finally, the third step should double again GDP twice during the first 30 to 50 years of the twenty-first century.
3 Gregory C. Chow, *China's Economic Transformation*, Oxford, Blackwell, 2002, p. 168.
4 See, for example: Heike Holbig, 'The emergence of the campaign to open up the West: ideological formation, central decision-making and the role of the provinces', *The China Quarterly*, 2004, pp. 336–57.
5 Chow, op. cit., pp.169–80.
6 I have developed elsewhere the reasons in favour of this strategy: Paolo Urio (ed.), *Public Private Partnerships: Success and Failure Factors for In-transition Countries*, forthcoming, University Press of America (UPA), 2010, chapters 1, 2 and Conclusion.
7 In the first chapter I have shown the important changes introduced to the Party's ideology after Mao's era.
8 Heike Holbig, op. cit., p. 339.
9 Hu Angang, *Population and Development*, Beijing, Automation Institute under the Chinese Academy of Sciences, June 1988 (in Chinese).
10 Hu Angang and Zou Ping, *China's Population Development*, Beijing, China's Science and Technology Press, 1991.
11 The Chinese edition was published in 1989.
12 Hu Angang, Wang Yi, *et al*., *Survival and Development: A Study of China's Long-Term Development*, Beijing and New York, Science Press, 1992. Hu and Wang are the authors of the main report. The annexes were written by Hu Angang, Li Lixian,

Wang Yi and Chen Xikang. This report has been circulating internally since end 1988 –beginning 1989: a member of the Standing Committee of the Political Bureau of CPC read the report. A copy was given to Deng Nan, who was working within the National Committee of Science and Technology and who transmitted it to her father (Deng Xiaoping) and Deng added highlighted postils.

13 Apart from classical Marxists references, it is interesting to note the names of several famous Western scholars such as Robert Malthus, Alfred Sauvy, Joseph Needham, Montesquieu, S.N. Eisenstadt, J. W. Forrester, Charles Kindelberger, Simon Kuznets, Wassily Leontief, W.W. Rostow, as well as several World Bank reports.

14 Hu and Zou, op. cit., pp. 62. They reject the Marxist theory according to which 'the conditions for mankind to multiply are determined directly by the structures of different social bodies' to which the authors reply by considering that 'to us, the historical evolution of population is neither determined purely by the mode of socio-economic production nor purely by the superstructure of society. There exist the decisive role of the population itself and the external environment under a given condition.'

15 Hu and Zou, ibid, pp. 79, 84–5. They refer to the population theory of the famous Chinese demographer Ma Yinchu.

16 Ibid, p. 153.

17 Ibid, p. 155; see also Wei Jinsheng, *Historical Experiences of the Changes in the Fertility Rate in Foreign Countries Merits Attention*, a report by the 'Population-Economic Development Strategy' research group under the State Science and Technology Commission, Beijing, 1988. These analyses are confirmed by the more recent works of the French historian and demographer Emmanuel Todd. See, for example: Emmanuel Todd, *L'invention de l'Europe*, Paris, Seuil, 1990; *The Final Fall: An Essay on the Decomposition of the Soviet Sphere*, New York, Karz Publishers, 1979; *After the Empire: The Breakdown of the American Order*, New York, Columbia University Press, 2006; other important works include: *L'illusion économique*, Paris, Gallimard, 1999; see also Youssef Courbage and Emmanuel Todd, *Le rendez-vous des civilisations*, Paris, Seuil, 2007.

18 Hu and Wang, op. cit., p. xi.

19 The difficulties in rebalancing the economy are confirmed by the findings of the World Bank's evaluation of the results achieved at mid-term by the 11th 5 Year Plan that clearly has been conceived to achieve this key objective: World Bank, *Mid-Term Evaluation of China's 11th 5 Year Plan*, 2008. Available online at: www.worldbank.org (accessed 15 June 2009). In spite of strong political commitment and remarkable progresses achieved in all domains, 'little progress has been made in rebalancing the overall pattern of growth, which has in turn limited progress on other key objectives', page v.

20 Ibid, pp. xii–xiii.

21 Ibid, p. xiv.

22 Ibid, pp. xvi–xvii.

23 Wang Shaoguang, Hu Angang, 'Strengthen the role of the Central Government during the transition towards a market economy', report on China's state capacities, Shenyang, Liaoning People Press, 1993.

24 Joseph Fewsmith, *China since Tiananmen*, Cambridge, Cambridge University Press, 2001, p. 134.

25 As Fewsmith recognizes, ibid, pp. 137–41.

26 These ideas circulated internally since the beginning of the 1990s (for references to Chinese sources see Fewsmith, ibid) and were later published in English: Wang Shaoguang and Hu Angang, *The Political Economy of Uneven Development: The Case of China*, New York, M.E. Sharpe, 1999, Wang Shaoguang and Hu Angang, *The Chinese Economy in Crisis: State Capacity and Tax Reform*, New York, M.E. Sharpe, 2001.

27 This is also a general policy option that favours the legitimacy of the Party, and will be applied later by Hu not only to economic policies but also to social security, health, education, and environmental protection.

28 Zhang Xudong, 'The making of the post-Tiananmen intellectual field: a critical overview', in Zhang Xudong (ed.), *Whither China: Intellectual Politics in Contemporary China*, Durham and London, Duke University Press, 2001, p. 57.
29 Hu Angang, 'Corruption: an enormous black whole: public exposure of the economic costs of corruption', chapter 11 of Hu Angang, *Economic and Social Transformation in China*, London, Routledge, 2007, pp. 217–23.
30 In this sense see Francis Fukuyama, *The End of History and the Last Man*, New York, Free Press, 1992.
31 Just two examples: (1) discrimination towards Afro-Americans was suppressed in the US only during the 1960s, about one century after the Civil War, slavery being one of the causes of the conflict between the South and the North; (2) the right to vote at the federal level was granted to Swiss women only in 1971, just before the national elections of that year. Also we should not forget that improvements in the implementation of the liberal project were obtained by political and social struggle from below, i.e. from social and political movements under the leadership of political parties and trade unions. For the moment, it seems that these conditions do not exist within Chinese society, in spite of an increasing number of social protests and labour disputes brought before the courts.
32 See, for example: Hu Angang, 'Second transition of the Communist Party of China: from economic development to institution building', in Hu Angang, *Economic and Social Transition in China*, London, Routledge, 2007, pp. 224–46; and Hu Angang, Making policy decision-making more scientific, democratic, systematic and specialized', ibid, pp. 246–54.
33 Hu Angang, Conference at Tsinghua University, January 2005.
34 James Riedel, Jin Jing, and Gao Jian, *How China Grows*, Princeton University Press, 2007, p. 16. See also Richard Sanders and Chen Yang (eds), *China's Post-Reform Economy — Achieving Harmony, Sustaining Growth*, London Routledge, 2007, especially chapter 7 by Charles Goodhart and Xiaosong Zeng, 'China's banking reform', pp. 105–18, and chapter 8 by Shujie Yao and Zhongwei Han, 'Ownership reform, foreign competition and efficiency of Chinese commercial banks', pp. 119–43.
35 Riedel, Jin and Gao, op. cit., p. 67. They attribute the credit of this to the 'Chinese households, which responded to the material incentives brought by economic reforms to save a growing rate of their disposable income'. See nevertheless the analysis of Robert Keidel, *The Causes and Impact of Chinese Regional Inequalities in Income and Well-Being*, Carnegie Endowment for International Peace, December 2007, presented in chapter 2, who provides a more detailed analysis of the savings habits of rural and urban households.
36 The following information is from Shujie Yao and Zhongwei Han, 'Ownership reform, foreign competition and efficiency of Chinese commercial banks', in Sanders and Chen, op. cit., pp. 121–4.
37 Bank of China (BOC), China Construction Bank (CCB), Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC).
38 *China Daily*, 22 October 2008.
39 Ran Yan, *L'éducation à l'environnement en Chine*, unpublished Masters dissertation for the Masters in Asian Studies, University of Geneva, 2005, under the supervision of Prof. Paolo Urio.
40 This has been done in the framework of an overall restructuring of the Central Government ministries and agencies that led to the creation of five super Ministries: Ministry of Information, Ministry of Human Resources and Social Security, Ministry of Environmental Protection, Ministry of Housing and Urban–rural Construction, and the Ministry of Transport. Available online at www.china.org.cn (accessed 12 March 2008).
41 China has signed a long list of international treaties in the domain of environmental protection that would be too long to quote and comment on here.
42 The Clean Development Mechanism (CDM) is an arrangement under the Kyoto

Protocol allowing industrialized countries with a greenhouse gas reduction commitment (called Annex 1 countries) to invest in projects that reduce emissions in developing countries as an alternative to more expensive emission reductions in their own countries. A crucial feature of an approved CDM carbon project is that it has established that the planned reductions would not occur without the additional incentive provided by emission reduction credits, a concept known as 'additionality'. The CDM allows net global greenhouse gas emissions to be reduced at a much lower global cost by financing emission reduction projects in developing countries where costs are lower than in industrialized countries. However, in recent years, criticism of the mechanism has increased. The CDM is supervised by the CDM Executive Board (CDM EB) and is under the guidance of the Conference of the Parties/Meeting of the Parties (COP/MOP) of the United Nations Framework Convention on Climate Change (UNFCCC).

43 For more information on the various taxes and items subject to this tax, see: OECD, *Environmental Taxes: Recent Developments in China*, Paris, OECD, 1999. This is a very comprehensive overview of all environmental objects that the Chinese government has committed itself to protect.

44 PRC, *Initial National Communication on Climate Change*, PRC national report, Beijing, 2004 p. 26.

45 The domain of construction allows me to report the opinion of some experts (both Western and Chinese) that express some doubts about the will of local elites to comply with these measures. One of my Masters students attending an exhibition on environmental technologies in China in 2004 had the opportunity to listen to the discussion between a French architect, a French engineer specializing in energy saving for buildings, and some Chinese property developers. The discussion showed that the developers prefer to build quickly and at the lowest price, and to transfer to the tenants the task of paying for the energy needed to heat the building. According to the architect, this is not a special case: even the Chinese bureaus of architects, subject to serious competition between them, build with little or no insulation at all.

46 OECD, op. cit.

47 For a complete analysis of this charge, see: OECD, ibid, pp. 61–109 and especially the third part devoted to the tax on $SO^2$ and taxation policies in China, ibid, pp. 233–59.

48 The following paragraphs are based upon discussions with Hu Angang at Tsinghua University, October 2008 and on Hu Angang, 'A new approach at Copenhagen', available on China Dialogue's website. Available online at: www.chinadialogue.net (accessed 7 September 2009).

49 Ibid.

50 For the definition of HDI see chapter 2, section 3.1.

51 Chris Buckley, 'China government adviser urges greenhouse gas cuts', *Financial Times*, 8 September, 2008, referring to Hu Angang proposal and to an interview given by Hu to Reuters, in which Hu said that he submitted his climate proposal to President Hu Jintao earlier in 2008.

52 That China is able to technically attain these goals is confirmed by a study by McKinsey company: *China's Green Revolution*, McKinsey Company, February 2009. Available on the company's website: www.mckinsey.com (accessed 10 June 2009).

53 Hu Angang, op. cit.

54 According to Jamil Anderlini, 'China strikes tough pose for climate talks,' *Financial Times*, 1 May 2009.

55 Buckley, op. cit. and 'Voices that carry-advocating for carbon caps in China. An influential voice from within calls for hard carbon emissions targets', The Green Leap Forward website. Available at: http://greenleapforward.com (accessed 6 June 2009). According to the *Washington Monthly*, July–August 2007, The Green Leap Forward is an example of 'China's fastest-growing citizen movement. Beijing isn't cracking down on these new activists — it's empowering them'. Several other intellectuals have expressed their concern for China's environmental situation. For example Jiang

Gaoming, professor at the Academy of Sciences, vice secretary-general of China Society of Biological Conservation and board member of China Environmental Culture Promotion Association (see his article with Dou Guanyi, 'Towards a new energy economy', China Dialogue website: www.chinadialogue.net, accessed 11 June 2009); Jing Xuecheng, former deputy director at the research department of China People's Bank, currently consultant and professor at the China Financial Institute, Peking University (see his article 'A green response to the crisis', China Dialogue website: www.chinadialogue.net, accessed 12 June 2009). Let us notice that some of Hu Angang's ideas have been taken up by part of the state bureaucracy. Pan Yue, head of the State Environmental Agency (SEPA) published in 2006 the first official government report on China's 'Green GDP', an idea to which Hu Angang has contributed. The last Official document of the Chinese government is: *China's National Climate Change Programme*, Prepared under the auspices of National Development and Reform Commission (NDRC), Beijing, June 2007.

56 World Bank, *Mid-Term Evaluation of China's 11th 5 Year Plan*, Washington, DC, 2009. Available online at: www.worldbank.org (accessed 15 June 2009).

57 'China's green opportunity', *McKinsey Quarterly*, May 2009, p. 2. Available on its website: www.mckinseyquarterly.com (accessed 5 June 2009). See also *China's green revolution*, op. cit.; note however that this research is meant neither as assessment of China's environmental policies nor as a set of prescriptions, but simply as an inventory of the technical means at China's disposal to reduce its emissions.

58 Amongst the many projects realized in this way it suffices to mention *China: Deepening Public Service Unit Reform to Improve Service Delivery*, Beijing, Citic Publishing House, 2005, published for the World Bank. This document reports the results of the work of an international team comprising Chinese and Western experts.

59 Randall Peerenboom, *China's Long March toward Rule of Law*, Cambridge, Cambridge University Press, 2002, and *China Modernizes: Threat to the West or Model for the Rest?*, Oxford, Oxford University Press, 2007.

60 This part is co-authored with Liu Dehao, Renmin University of China, who contributed to this chapter with a substantial report, written during his year abroad in Switzerland: Liu Dehao, *Developing Social Security System in China*, Lugano 2008. I am also grateful to Wang Fang for having contributed to a first paper describing the changes in the Chinese social security system up to 2000: Wang Fang and Paolo Urio, *The Structure of the Chinese Social Security System*, research report realized within the Europe China Management Improvement Foundation — ECMI), Geneva, 2001.

61 This situation has been recognized by the World Bank in its report *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda. An Assessment of Poverty and Inequality in China*, March 2009. This report further considers that educational attainment of a household's adult worker is the clearest observable predictor of poverty in China, pp. viii–xi, xxiv.

62 Ibid, pp. xii–xxxiii. For 2007 the official poverty line was fixed at 785 yuan per person per year, or US$0.57 per person per day in 2005 PPP dollars, ibid, p. v.

63 Wu Jie, 'China's social security system'. Available online at: http://www.cato.org/events/china/papers/jie.html (accessed 10 May 2008).

64 This sum went up to 900 billion yuan by the end of 2006.

65 Liaoning, Jilin and Heilongjiang compensated the 'Empty Personal Account' up to 20.6 billion yuan, 2.75 billion yuan and 3.24 billion yuan respectively by the end of 2005.

66 Yang Yansui, 'The third choice of pension fund management', *Labour and Social Security Notes*, 2004.

67 Huang Zhouhui, 'Enterprises annuity: how many shares can it occupy?'. Available online at: http://www.ycwb.com/gb/content/2004-04/23/content_680652.htm (accessed 9 May 2008).

68 The expenses of socialized medicine were paid out of the government budget; the expenses of labour insurance were paid by the enterprises as a business cost.

Meanwhile, the hospitals were fully financed by the government.

69 See in this sense the interpretation of the difficulties experienced by the British National Health Service (NHS) by Allyson M. Pollock, *NHS plc. The Privatization of our Health Care*, London Verso, 2004.

70 It must be noted that some Chinese professors specializing in this field pointed out that the accumulated rate was too high, which violated the basic principle of medical insurance.

71 It is one task of the 'Liaoning Pilot'.

72 Some cities set up the 'Civilian hospital,' such as Jiangmen, a district of Guangdong Province, in 22 January 2006. Available online at: http://www.xzxf.gov.cn/I_bmfw/show.aspx?id = 27640 (accessed 12 May 2008).

73 Data source: Ministry of Civil Affairs, '2007 Statistical communiqué of civil affairs development'. Available online at: http://www.mca.gov.cn/article/zwgk/mzyw/200801/20080100010511.shtml (accessed 10 May 2008).

74 The data in this part come from the website of the Ministry of Civil Affairs of PRC. Available online at: http://www.mca.gov.cn/artical/content/WFL_YWJS/20047785023.html (accessed 10 May 2008).

75 Date source: National Bureau of Statistics, '2007 Statistical Communiqué on National Economy and Social Development'. Available online at: http://www.stats.gov.cn (accessed 20 May 2008).

76 Wu Jinglian, *Large and Medium-sized Enterprises' Reform: Establishing Modern Enterprise System*, Tianjin People Press, Tianjin, 2003; Zhou Xiaochuan and Wang Lin, 'Independence of social security function from enterprises', *Economic Research Journal*, no. 11, 2003, pp. 15–22.

77 Wang Yan, Xu Dianqing *et al.*, 'The implicit debt, transition cost, reform forms and the influence of China's pension system', *Economic Research Journal*, no. 5, 2001, pp. 3–12.

78 Zhao Yaohui and Xu Jianguo, 'Incentive problems in China's urban pension reform', *China Economic Quarterly*, no. 1, 2001, pp. 193–207.

79 Feng Jin, 'Welfare analysis of China's pension reform', *Economic Research Journal*, no. 2, 2004, pp. 55–63.

80 He Zhangyong and Yuan Zhigang, 'Dynamic efficiency and the model for funding raising schemes of the pension system', *World Economy*, no. 5, 2004, pp. 3–12.

81 Zhu Qing, ''Financing endowment insurance should not shunt at present to funds', *Economic Theory and Business Management*, no.12, 2001, pp. 16–21. Traditionally, the Aaron Condition (Aaron, H., 'The social security paradox', *Canadian Journal of Economics and Political Science*, no. 32, 1966, pp. 371–6) is used to make welfare comparisons between funded and unfunded pension systems.

> The Aaron Condition compares, in the context of an overlapping generations (OLG) model, per capita utility under a funded pension system with that obtainable under a defined contribution pay-as-you-go (DC-PAYG) pension system. The comparison assumes exogenously given fertility rates and inelastic labour supply. Under these restrictive conditions Aaron found that a DC-PAYG system leads to higher (lower) individual welfare than a funded system (or private provision) if the gross population growth rate times the gross rate of labour productivity is larger (smaller) than the market interest rate.

Miriam Steurer, *Pay-as-you-go Pensions, Endogenous Fertility, and the Aaron Condition*, School of Economics University of New South Wales Sydney, preliminary draft, July 2002, p. 1.

82 Zheng Bingwen, 'Strengths and limitations of the NDC approach in the social security of six European-Asian countries and its feasibility for China', *World Economics and International Politics*, no. 5, 2003, pp. 56–61.

83 Wang Xinmei, 'Public pension system reform in the worldwide and China's choice', *World Economy and Politics*, no. 6, 2005, pp. 52–71; Li Jiange, 'New analysis on "the empty individual account" within pension system', *Finance and Economy*, no. 11, 2006.
84 Hu Angang, 'Suggestions on unifying the social security system and levying social security tax', *Reform*, no. 4, 2001, pp. 12–18.
85 Ja Kang, Yang Liangchu and Wang Ling, 'A research on fee – charge change into tax and levying social insurance tax', *Public Finance Research*, no. 1, 2001. pp. 25–34.
86 Li Shaoguang, 'Dilemma and outlet of old age insurance', *Comparative Economic and Social Systems*, no. 3, 2000, pp. 37–45; 'Government responsibilities in social security', *Comparative Economic and Social Systems*, no. 5, 2002, pp. 34–7; 'Social security tax and the optimization of social security system', *Economic Research Journal*, no. 8, 2004, pp. 48–56; 'Transferring state-owned assets to compensate the implicit pension debt', *Economics Information*, no. 10, 2004; Zheng Gongcheng, 'Levying social insurance tax should be deferred', *China Daily Times*, 2 February 2002.
87 Zhen Li, 'A problem on the balance of social old age insurance', *Chinese Soft Science*, no. 12, 1999, pp. 19–23.
88 Feng Lanrui, 'Social security socialization and the provincial pooling of pension funds', *China Social Security*, 10, 2002, pp. 54–7.
89 Wan Chun and Qiu v, 'The construction of model and forecasting for national pooling account about pension system in China', *Forecasting*, no. 3, 2006, pp. 43–54.
90 Xiaojun Wang, 'Actuarial analysis for social pension system in different provinces of China', *Population & Economics*, no. 3, 2006, pp. 67–71.
91 Zhen Li, 'A problem on the balance of social old age insurance', *Chinese Soft Science*, no. 12, 1999, pp. 19–23; Li Zhen and Sun Yongyong, 'Diversification – the rational choice of social pension fund management', *Economic Review*, no. 6, 2001, pp. 56–9; 'Institutional arrangement for management and supervision of old-age social insurance funds', *Chinese Soft Science*, no. 3, 2002, pp. 8–13; Li Shaoguang, 'Government responsibilities in social security', *Comparative Economic and Social Systems*, no. 5, 2002, pp. 34–7; Chen Gong and Xie Zhenfa, 'Compensating the old-age insurance transition cost to realize "full individual account"', *Contemporary Finance & Economics*, no.10, 2002, pp. 28–31.
92 Li Shaoguang, *An Economic Analysis on the Reform of Social Security*, China Renmin University Press, Beijing, 2006.
93 Wu Jinglian, *Large and Medium-sized Enterprises' Reform: Establishing Modern Enterprise System*, Tianjin People Press, Tianjin, 1993; Zhou Xiaochuan and Wang Lin, 'Independence of social security function from enterprises', *Economic Research Journal*, no. 11, 1993, pp. 15–22.
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98 Ibid., in *Reform of Chinese Social Security System: Analects of 2008 International Symposium on Chinese Social Security*, edited by Xu Dianqing and Yin Zunsheng, Economic Science Press, Beijing, 2008.
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103 Zhen Li, 'Institutional arrangement for management and supervision of old-age social insurance funds', *Chinese Soft Science*, no. 3, 2002, pp. 8–13.
104 The data come from the calculation according to the '2007 Statistics Yearbook of China', from the National Bureau of Statistics of China, Beijing website: www.stats.gov.cn/english/statisticaldata/yearlydata/ (accessed 19 May 2008).
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106 Mark W. Frazier, 'After pension reform: navigating the "third rail" in China', *Studies in Comparative International Development*, vol. 39, no. 2, 2004, pp. 45–70.
107 Li Shaoguang, 'Two issues of the reform of China's social security system', *Comparative Economic and Social Systems*, vol. 123, no. 3, 2006, pp. 34–8.
108 The total of 3.7 trillion of the transition cost is recognized by most of scholars.
109 National Council for Social Security Fund, 2006 Annual Report National Social Security Fund, June 15, 2007.
110 For example, the pricing mechanism limits transferring the state assets to NSSF in the capital market.
111 At that time, the barriers to transfer the state assets to NSSF will be solved and the amount of accumulated funds in NSSF is enough to refund the loans from personal accounts.
112 In fact, the proportion in the pilot experiment of capitalizing the personal account is set at 5 percent in most provinces, which reduces the burden of the governmental budget.
113 The Ministry of Labour and Social Security, Department of Social Security Fund Supervision. Available online at: http://news.sohu.com/20070829/n251832112.shtml (accessed 12 June 2008).
114 According to Zhou Xiaochuan, the chairman of China Securities Regulatory Commission, 'Social security funds to improve stock market stability', *China Securities Daily*, 30 August 2000.
115 According to some more recent estimates by the *China Daily* there are today 150 million migrant workers (*China Daily*, 17 October 2008) or even more than 200 million (*China Daily*, 28 October 2008). The World Bank admits the difficulties of estimating the number of migrant workers; nevertheless, it has recently estimated their number at about 150 million: World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda. An Assessment of Poverty and Inequality in China*, March 2009, p. x.
116 See for example the works of Hu Angang: 'China's macro-economy and health', paper presented at an international symposium on Global Macro Economy and Health co-sponsored by the State Commission of Planning and Development, the Ministry of Finance, the Ministry of Health and the World Health Organization on 18 December 2002, later published as chapter 6 of Hu Angang, *Great Transformations in China*, Beijing, Center for China Studies, October 2004, pp. 148–66, and as chapter 6 in Hu Angang, *Economic and Social Transformation in China*, London, Routledge, 2007, pp. 133–51, where you will find another chapter on health, 'Health insecurity, the biggest challenge to human security in China', pp. 152–66.
117 This is a well-known and well-documented phenomenon in Western countries. See for example: Domenighetti, Gianfranco, *Marché de la santé: ignorance ou adéquation? Essai relatif à l'impact de L'information sur le marché sanitaire*. Lausanne, Réalités

sociales, 1994; and 'Challenges for information systems for health policy development: the canton experience in Switzerland', in *The Process of Health Policy Development of Sub-National Policies for Health*, Copenhagen, WHO Regional Office for Europe, 1992, pp. 172–196.

118 Liu X. Mills, 'Evaluating payment mechanisms: how can we measure unnecessary care?', *Health Policy and Planning*, vol. 14, no. 4, 1999, pp. 409–13.

119 'The puzzle of 17 times no effective drug price deduction', Xinhua net 2005.10.31. Available online at: http://nwes.xinhuanet.com/fortune/2005-10-31content_3707704.htm (accessed 19 May 2008).

120 Date source: MoH, 'The investigation result of the 3rd National Health Service'.

121 Jiujiang Health Insurance Office, 'The "413" urban health insurance arrangement', Jiujiang, Jiangxi province: Project Report, 2004.

122 Wu A., Li Y., Zhang Y. and Cheng X., 'DRG-based payment reform for urban health insurance scheme', *Chinese Journal of Health Economics*, no. 9, 2004, pp. 38–9.

123 Caijing Magazine, 'New medicine for China's healthcare system', 28 December 2007.

124 Pension funds totalling 3.2 billion yuan were invested into unpermitted fields accompanied by officials' corruptive behaviours. Many officials including Chen Liangyu, the Secretary of Shanghai CPC, were punished severely according to the laws.

125 Another domain that has presented the same type of problem is the education sector where similar models, inspired by a liberal market economy, have been introduced, making access to some institutions of middle and higher learning especially difficult, or even impossible, for those who have benefited less from the economic progress.

126 For a critique of New Public Management see Paolo Urio, 'La gestion publique au service du marché', in Marc Hufty (sous la direction de), *La pensée comptable. Etat, néolibéralisme, nouvelle gestion publique*, Paris, Presses Universitaires de France, pp. 91–124.

127 It would be too long to discuss here in detail these concepts I have developed elsewhere: Paolo Urio (ed.), *Public Private Partnerships: Success and Failure Factors for In-transition Countries*, forthcoming, University Press of America, (UPA), 2010, chapters 1, 2 and Conclusion; with a chapter on China by Yang Yongheng and Wankuan Zhang of Tsinghua University, Beijing. Neither will I discuss here the related problems of defining 'public goods', 'private goods' and the mixed category of 'merit goods'. But this distinction should be kept in mind, as many state's activities will concern the controversial category of 'merit goods': the latter possess a part of 'public good' that cannot be entirely based upon scientific evidence, as it is the case for purely public or private goods, and therefore must be approved through political decision-making procedures.

128 World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda. An Assessment of Poverty and Inequality in China*, March 2009. Available online at: www.worldbank.org (accessed 5 September 2009).
The Bank gives the following reasons:

1 vulnerability to poverty is widespread, especially in rural China;
2 while economic growth has been critical for poverty reduction, the responsiveness of poverty to economic growth has decreased;
3 because incomes matter more now than they used to for access and outcomes in health and education, and the burden of health and education for the poor has increased;
4 growing formalization of the urban labour market raises concerns about the welfare of workers;
5 the emergence of a 'floating population' poses continuing challenges for social policy;
6 new systems of social protection are still evolving and many challenges remain.

129 World Bank, *Mid-term Evaluation of China's 11th 5 Year Plan*, 2008. Available online at: www.worldbank.org (author's summary from the Bank's report. Accessed 15 June 2009).

130 Ibid, p. v.

131 The highest minimum wage has been established on 1 July 2009 by the Shenzen government at 1,000 yuan, an increase of 20 percent.

132 The China Labour Bulletin website (www.china-labour.org.hk/en/, accessed 4 May 2009) recognizes that in spite of the fact that 'workers feel left out in the cold and are increasingly bypassing the union altogether in their attempts to defend their rights [as evidenced by the fact that] workers now stage strikes and protests in a deliberate attempt to force local governments to intervene in their disputes with management', it is recognized that 'all the conditions for positive change within the union are present, and that there were signs in 2008 of union officials taking a more robust and pragmatic approach to protecting worker's rights'. The China Labour Bulletin publishes on its website news, information, and reports on the situation of the workers in mainland China.

133 See for example Yiyi Lu, *Non-governmetal Organizations in China*, London, Routledge, 2008. The PhD dissertation that one of my former assistants is about to complete under the supervision of Prof. Antoine Kernen (University of Lausanne) will also provide some useful insights within the changing role of Chinese charitable NGOs and their contribution to the transformation of social governance in China. These organizations seem to have more and more autonomy regarding the state's control. The emergence of this new charitable social sector is particularly important given the rapid growth of China's vulnerable population and the appearance of the phenomena of social exclusion. Although Chinese NGOs are still submitted to a very strict legal frame, the Chinese government observes, tolerates and sometimes encourages the 'illegal' development of some charitable NGOs, provided they are useful to maintaining social peace. The thesis, based upon in-depth interviews in three Chinese areas, will more particularly analyze the social profile of the founders and employees of these NGOs, and evaluate the impact of the Chinese state's financing and international grants on their development.

134 See, for example, the article posted by the China Labour Bulletin website (www.china-labour.org.hk/en/, accessed 1 January 2008): 'Migrant workers start to win significant compensation awards in the courts'. Tsinghua University has just launched a new review in English published by its Research Centre on NGOs, directed by Professor Wang Ming: *The China Nonprofit Review*, Vol. 1, No. 1, 2009, 168 pages, with nine articles by Chinese scholars.

135 In note 16 of the second chapter I have already referred to the considerable opening up of the Chinese mass media during the reform era. Many topics that the media were not allowed to deal with during the Mao era are now regularly presented and discussed. As a consequence, the profession of journalism has undergone some remarkable changes. See, for example, Li Xiguang, *Journalism in Transition: Critical Studies of Chinese Press*, Beijing, Draft copy, kindly provided by the author.

136 About the fact that the crisis is not only a financial but also an economic one see Joseph Stiglitz, 'Spring is here, but contain your excitement', *The Economists' Voice*, Project Syndicate, The Berkeley Electronic Press, May 2009. Available online at: www.bepress.com/ev (accessed 24-06-09).

137 World Bank, China Quarterly update, March 2009, and June 2009, and World Bank's Press release, Beijing, 18 June 2009. Available online at: web.worldbank.org (accessed 28 June 2009).

138 From the Letter from China no. 2, Shanghai, 30 April 2009, received by email by the author. The letter is sent to subscribers by the Swiss Center Shanghai, directed by Nicolas Musy. The letter of April 30 further informs that the large amount of savings:

> allowed the largest banks in the world (in deposit terms) to become Chinese: the Industry and Commerce Bank of China (ICBC) just passed its American and

Japanese rivals JP Morgan and Mitsubishi-UFJ. In market capitalization, China is now home of the top 3 banks, reflecting the confidence of investors in Chinese banks. And they have been lending: new loans in the first quarter of 2009 accounted for more than all new loans in 2007.

**4 Understanding China after Mao**

1 He Ping, *China's Search for Modernity: Cultural Discourse in the Late 20th Century*, Palgrave, Macmillan, in association with St. Anthony College, Oxford, 2002, p. 1.
2 A positive answer to this question corresponds to the thesis of the coming collapse of China put forward by Gordon Chang, *The Coming Collapse of China*, New York, Random House, 2001.
3 I have developed elsewhere a more detailed analysis of this topic: Paolo Urio, *Le role politique de l'administration publique*, Lausanne, LEP, 1984.
4 Robert L. Peabody, *Organizational Authority*, New York, Athernon Press, 1964; Steven Lukes, *Power: A Radical View*, London, MacMillan, 1974.
5 Stewart Clegg, *The Theory of Power and Organization*, London, Routledge & Kegan Paul, 1979, p. 47.
6 Max Weber, *Economie et société*, Paris, Plon, 1971, translation of *Wirtschaft und Gesellschaft*, Tübingen, Mohr, 1922 and 1956 (this last critical edition edited by J. Winckelmann).
7 Georges Balandier, *Anthropologie politique*, Paris, Presses Universitaires de France, 1967, p. 45 (my translation from the French). The works of anthropologists are very interesting because they tend to analyse so-called primitive societies simultaneously in all their societal dimensions, thus producing remarkable insights that the specialised disciplines too often fail to provide.
8 For a different, but similar point of view see the Marxist Wlodzimierz Wesolowski, *Classes, Strata and Power*, London, Routledge and Kegan Paul, 1979 (translated from the Polish), who shows that Marx and Engels follow the same approach, defining three functional imperatives: the reproduction of humankind; the production of consumer goods; and social organization, op. cit., pp. 97–100, especially note no. 29.
9 It would be tempting to establish a clear separation between 'ideological representations' and 'scientific representations', following the suggestions of Marxists and non-Marxist authors. I will not discuss this possibility, first because I do not see the interest of this distinction when dealing with the definition of power at this level of abstraction; and second because discussing this distinction would force us to go well beyond the scope of this book.
10 Of course we have examples of collective production processes in ancient times, both in China and elsewhere. But, with the exception of 'public works' such as the construction of the pyramids in ancient Egypt or of the Great Wall in China, the essential part of economic production was organised on an individual (or family) basis.
11 Wesolowski, op. cit., pp. 19–20, uses this distinction only for economic resources, whereas I propose to use it for all types of resources.
12 I think that this term offers several advantages. First, it translates very well the dissymmetry of our concept of power. Second, it avoids theoretical references that could be considered as ideologically biased, such as the ruling class, the political class, the elite of power, the dominating class. Third, while giving to this concept a very precise sense, it prejudges in no way the actual contents that the concept will assume in historical cases, nor as to the degree of homogeneity of the social group that would constitute the dominant group. The concept of the dominant group can very well apply to a social class in the Marxist sense, to a composite elite, or to a more or less disparate coalition, etc.
13 One of the best statements is provided by Nobel prize-winner Milton Friedman, *Capitalism and Freedom*, Chicago, University of Chicago Press, 1962 (1982 with a new

Preface by the author), chapter 1: 'The relation between economic freedom and political freedom', pp. 7–21, chapter 2 'The role of government in a free society', pp. 22–36.

14 I develop this section from a paper presented in November 2004 at a Symposium in Haikou: Paolo Urio, *The Provision of Public Services in the PRC in the Age of Reform: Reconciling State, Market and Civil Society*, paper presented to the International Symposium on Public Service and Government Reform, Haikou, China, 30–31 October 2004.

15 Timothy Brook, and Gregory Blue (eds), *China and Historical Capitalism, Genealogies of Sinological Knowledge*, Cambridge, Cambridge University Press, 1999.

16 For the origins of market economy, its major economic characteristics, as well as its link to the state, see, for example: Tom Bottomore, *Theories of Modern Capitalism*, London, Allen & Unwin, 1985; Peter A. Hall and David Soskice (eds), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press, 2001. For a contemporary Western critique: Meiskins Ellen Wood, *Empire of Capital*, London, Verso, 2003. For the origins of capitalism: Meiskins Ellen Wood, *The Origins of Capitalism*, London, Versus, 2002. For the rise of market economy and an international comparison about 'the wealth of nations' see, among the vast literature: Immanuel Wallerstein, *The Modern World System*, New York, Academic Press, 2 volumes, 1974–1980; *Le capitalisme historique* (translation of *Historic Capitalism*) Paris, La Découverte, 1985; David S. Landes, 'The fable of the dead horse, or the Industrial Revolution revisited', in Joel Mokyr (ed.), *The British Industrial Revolution: An Economic Perspective*, Boulder, Colorado, USA, Westview Press, 1998 (2nd edn), chapter 2; *The Wealth and Poverty of Nations. Why Some are So Rich and Some So Poor*, New York, Norton, 1999 (with 2 chapters on China, Japan). For the link between economic development and the development of science: Joseph Needham, *Science and Civilisation in China*, New York, Cambridge University Press, 7 volumes, 1954–2004. For a comparative analysis of the rise of the natural sciences: Toby E. Huff, *The Rise of Early Modern Science: Islam, China, and the West*, (2nd edn) Cambridge, Cambridge University Press (1st edn 1993, 2nd edn 2003). For the eastern origins of Western civilisation: John M. Hobson, *The Eastern Origins of Western Civilisation*, Cambridge, Cambridge University Press, 2004 (chapters 3 and 9 on Chinese influence on the West).

17 Bismarck's embryo of a Welfare State in Germany during the late nineteenth century, being the more often quoted one.

18 I use the term 'market economy' for the sake of simplicity, with the purpose of differentiating it from 'planned or command economy'. It is clear that it would be more appropriate to distinguish the economy of Western countries into three parts: the true market economy, the monopolistic sector, and the public economy. Moreover, it would be necessary to make a distinction between 'market economy' and 'capitalist economy' thus following the works of Ferdinand Braudel and Emmanuel Wallerstein: Fernand Braudel, *La dymamique du capitalisme*, Paris, Flammarion, 1985, *Ecrits sur l'histoire* Paris, Flammarion, 1969, *Civilisation matérielle, économie et capitalisme (XVe – XVIIIe siècle*), Paris, A Colin (Ed. Livre de poche), 1979, vol. 1: Les structures du quotidien; vol. 2: Les jeux du l'échange; vol. 3: Le temps du monde; Immanuel Wallerstein, *Le capitalisme historique*, Paris, La Découverte, 1985 (translation of: *Historical Capitalism*, 1983), *After Liberalism*, New York, 1995, St. Martin's Press, and *World Sytems Analysis. An Introduction*, Durham and London, Duke University Press, 2004.

19 It is not necessary in the framework of this book to further describe the composition of the dominant group. It may vary from one country to another. Generally, it is made up of the most influential representatives of capitalist organizations, some right-wing political parties, some managers of leading private mass media, and some right-wing intellectuals. Occasionally some other forces join the dominant group in some specific areas of public policy, generally in the domain of social policies.

20 It is out of question in this text to analyze in depth the rationality of the structures. Our purpose is simply to illustrate our theoretical framework and to suggest some research orientations.
21 It is enough here to mention: transportation, school and education, urban planning, waste treatment, social services, energy, housing, hospitals, insurances, etc.
22 Needless to say, these state processes are placed under the general principle of the separation of powers (executive, legislative, and judicial). In this way citizens who think that the government (the executive branch and its administration) have taken a wrong decision, can bring the case to a state organ independent from the government, i.e. the courts.
23 Here I refer to the methodology defined by Ole Holsti for the analysis of beliefs systems of social actors: Ole Holsti, *The Operational Code as an Approach to the Analysis of Beliefs Systems*, Duke University, 1977, mimeo.
24 Without however forgetting the processes regulated by the socio-biological and informational structures.
25 This is of course a controversial statement. But it is true that at that time it was generally accepted in the West, and maybe also today.
26 After the Second World War, the general agreed policy among Western policy-makers was to reconstruct Europe (with the aid of the American Marshall Plan). This necessity became even more compelling when, at the end of the 1940s, Europe became divided into Western and Eastern Europe. People in favour of a limited role of the state in society (and especially in the economy) had no chance of being heard. Milton Friedman complains about this kind of blackout in the preface to the second edition of his (now) famous book: Milton Friedman, *Capitalism and Freedom*, Chicago, University of Chicago Press, 1962 (1982 with a new Preface by the author). It is useful to remember that many economists belonging to this stream got together in 1946 in a little Swiss resort (above Vevey), the Mount Pèlerin, and founded the 'Society of the Mount Pèlerin' with several Nobel Prize winners, among them Milton Friedman, F. von Hayek, and others. With the support of several rich foundations (financed by the private sector, especially in the USA) they prepared themselves for the time when their expertise would seem, to many policy-makers, inescapable. This has been the case, for example, for President Ronald Reagan, and Prime Minister Margaret Thatcher.
27 Other measures were the adoption by the state of management techniques imported from the private sector, the deregulation of the markets, the adoption of a more transparent national accounting system, and the 'flexibilization' and deregulation of human resource management in the public sector, namely the end of the public service status. The general principle, upon which NPM is based, is that of economic efficiency. David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming The Public Sector*, New York, Plume Book, 1992, is generally considered as the founding statement of NPM, at least in the USA; see also David Osborne and Peter Plastrik, *Banishing Bureaucracy: The Five Strategies for Reinventing Government*, New York, Penguin, 1997. There is a huge literature in favour of NPM (and a much less wide literature against it). See, for example, in favour: Michael Barzeley, *Breaking through Bureaucracy: A New Vision for Managing in Government*, Berkeley, University of California Press, 1992, and *The New Public Management, Improving Research and Policy Dialogue*, Berkeley, University of California Press, 2001.
28 See, for example, my article: Urio, Paolo, 'La gestion publique au service du marché', in Marc Hufty (ed.), *La pensée comptable. Etat, néolibéralisme, nouvelle gestion publique*, Paris, Presses Universitaires de France, 1999, pp. 91–124. For an exceptionally complete overall evaluation of NPM, based upon empirical evidence from a variety of sources, see Ezra Suleiman, *Dismantling Democratic States*, Princeton, Princeton University Press, 2003.
29 It must be noted that this process is far from being as widespread as some Western observers think it is. The Chinese Government has explicitly said on more than one

occasion that several sectors of the State's economy will not be privatised: this comprises not only the armament industry (which is quite understandable), but also public utilities, and what are labelled 'strategic sectors'.

30 See for example the article of Allen Schick, 'Why most developing countries should not try New Zealand reforms', *The World Bank Research Observer*, vol.13, no. 1, February 1998, pp. 123–31.

31 I refer here to the work of Lin, Yi-min, *Between Politics and Markets*, Cambridge University Press, 2001, as well as to those of the New Left movement both in China and in the West. I will get back to Lin's work at the end of this chapter.

32 It would also be necessary and interesting to analyze the changes in the internal decision-making process of the CPC, which has not been possible within this research. It would also be necessary to take into consideration the role of the Party's mass organizations, as well as the changes in civil society, namely the development of NGOs and of all sorts of associations; and finally the changing role of mass media. In the framework of this book I will simply refer to these changes that should be explored by additional in-depth research. For the most recent assessment of the changes in the role of the CPC and China's elite see: David Shambaugh, *China's Communist Party: Atrophy and Adaptation*, Berkeley, University of California Press, 2008, Bo Zhiyue, *China's Elite Politics: Political Transition and Power Balancing*, New Jersey, World Scientific, 2007, and Agnès Andrésy, *Le Président chinois Hu Jintao. Sa politique et ses réseaux. Who's Hu?*, Paris, L'Harmattan, 2008. For the development of NGOs in China see note 133, chapter 3.

33 As I have explained in chapter 1, there were also other reasons for introducing market mechanisms with the aim to improve economic efficiency; the more important of them being, in our opinion, the restoration of China as one of the major political powers in the international arena. And here Deng's goal is by no means different from Mao's.

34 In the first chapter I have given as an outstanding example the statement by President Jiang Zemin at the 2002 Party Congress. I have also mentioned that his successor confirms this statement at the 2007 Party Congress.

35 See for example Marie-Claire Bergère, *L'âge d'or de la bourgeosie chinoise*, Paris, Flammarion, 1986, and *Capitalisme et capitalistes en Chine*, Paris, Perrin, 2007.

36 Researches are under way in this domain, but it is too early to say to what extent the development of these organizations will go in the future and with what effect on the power structure. For references see note 133, chapter 3.

37 On the importance of law for a market economy and law in the Chinese contemporary context: Robin Paul Malloy, *Law and Market Economy: Reinterpreting the Values of Law and Economics*, Cambridge, Cambridge University Press, 2000; Jean C. Oi and Andrew G. Walder (eds), *Property Rights and Economic Reform in China*, Stanford, Stanford University Press, 1999; Stephen C. Angle, *Human Rights and Chinese Thought: A Cross-Cultural Inquiry*, Cambridge, Cambridge University Press, 2002.

38 The difference is of course substantive. See, for example: Stanley B. Lubman, *Bird in a Cage: Legal Reform in China After Mao*, Stanford, Stanford University Press, 1999, and *China's Legal Reforms*, Oxford, Oxford University Press, 1996; Randall Peerenboom, *China's Long March toward Rule of Law*, Cambridge, Cambridge University Press, 2002.

39 Yi-min Lin, *Between Politics and Markets*, Cambridge University Press, 2001.

40 Ibid, pp 2–3.

41 Ibid, foreword by the editor. Lin quotes several Western scholars, who argue that corruption and rent seeking are detrimental to economic growth (ibid, p. 2). His working hypothesis is that 'in the reform era, effective manipulation of state action … constitutes a necessary condition for the success of firms' (ibid, p. 6).

42 Lin refers to Western authors like Charles Lindblom, *Politics and Markets: The World's Political-economic System*, New York, Basic Books, 1977, and William Parish, and Ethan Michelson, 'Politics and markets: dual transformation', *American Journal of Sociology*, vol. 101, no. 4, 1996, pp. 1042–59.

43 Lin, op. cit., p. 17.
44 Ibid, pp. 17–18.
45 Ibid, p. 18.
46 In chapter 1 I have analyzed Deng's strategy for introducing market mechanisms without totally departing from Mao's ideological ideals.
47 In chapter 1 I have insisted upon this characteristic of modern societies, based on the works of Max Weber.
48 Amongst the numerous examples, let me quote the following, some of which I have used in the preceding chapters. First of all three reports prepared under the auspices of the World Bank with teams of Western and Chinese experts: World Bank, *China: Deepening Public Service Unit Reform to Improve Service Delivery*, Beijing, Citic Publishing House, 2005, published for the World Bank; World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda. An Assessment of Poverty and Inequality in China*, March 2009, available on the World Bank website (www.worldbank.org, accessed 5 September 2009); World Bank, *Mid-term Evaluation of China's 11th 5 Year Plan*, 2008, available on the WB website (www.worldbank.org, accessed 15 June 2009). This last example is quite exceptional as it has been prepared at the request of the Development Planning Department of China's National Development and Reform Commission (NDRC) under the responsibility of the Prime Minister. I do not know any other country that has submitted to the scrutiny of an international organization the major planning instrument of its societal development. The other document worth mentioning is McKinsey, *China's Green Revolution*, McKinsey Company, February 2009, available on the company's website (www.mckinsey.com, accessed 5 June 2009) to which many scholars from several Chinese universities have contributed together with a team from the Energy Research Institute of the NDRC.
49 On the role of the Party Schools see: David Shambaugh, 'Training China's political elite: the Party School system', *China Quarterly*, December 2008, pp. 827–44. According to Shambaugh the Party Schools are 'a critically important mechanism for maintaining control over the 6,932,000 Party cadres and many of the 33,578,000 cadres in the state system', ibid, p. 828.
50 According to the *China Daily*, 19 October 2007.
51 Examples of topics dealt with at the Shanghai (Pudong) Party School: the mission of CPC and developing the ruling capacity of CPC; function and management of government; the difference between public and private management; governing in accordance with the law; scientific view of development, and the five-year overall planning; city function orientation and the strategy of urbanization in China; the structure and problems of local public finance; city planning and development, protecting citizens' benefits; employment and social security; WTO regulation and open policy; administration and reform of SOEs; the development of private business; the operation, function and effects of the stock exchange; brief introduction of Chen Yun's thought.
52 Here is a list of the major topics within the second phase of the Sino–Swiss Management Training Programme in The Public Sector of China. The list shows the wide variety of topics the senior executives were exposed to in Europe. *Management Topics and Techniques Learned at Public Administrations and State-owned Enterprises Visited in Europe*: government organization, coordination and sharing of responsibility between state, provinces, municipalities; diverse types of social insurance and administration procedures; environment protection policies; accountability; performance evaluation; rules and procedures of market liberalization; role of a public utilities' regulator and coordination with providers; collection and use of official statistics; consequences of reorganization; motivation of staff; anti-corruption procedures; New Public Management techniques. *Management Topics and Techniques Learned at Privately-owned Companies Visited in Europe*: company culture and values; performance leadership; company strategies; executive training and evaluation; identification and development of key employees; compensation and employee benefits; recruitment

procedures; management development; managing national agreements on terms of employment; group learning; benchmarking; value-based management; management of new subsidiaries; downsizing and personnel motivation; change management; linking shareholder and employees' interest; total quality management.

53 According to the NDRC website. Available online at: http://en.ndrc.gov.cn/ (accessed 26 September 2008).

54 However, it should be noted that after the reshuffle of March 2008, the NDRC will focus on macro regulation and phase out its involvement in economic micro-management and the examination and approval of specific projects.

55 As I have explained in chapter 3, point 1.1, within the Chinese universities there are some think tanks and intellectuals who stand out and have played the role of major inspirers of the Chinese leadership, and I have given the example of the Centre for China Study at Tsinghua University founded and directed by Hu Angang.

56 The exact number varies according to the methodology used: the less pessimistic methodology arrives at 100–120 million poor people.

57 For a general view on the challenges of the present difficult situation for both liberal and social-democratic countries see the stimulating work of Roberto Mangabeira Unger, *What Should the Left Propose*?, London, Verso, 2005, with many references to China. For China, see the reactions to the proposals of Pan Wei of Peking University suggesting for China a system of 'political liberalization without democratization' in Zhao Suisheng (ed.), *Debating Political Reform in China. Rule of Law vs. Democratization*, New York, M. E. Sharpe, 2006, with chapters written by Western and Chinese experts. For the persistence of traditional cultural traits in the process of modernization (especially of the legal system) see, for example: Randall Peerenboom *China's Long March Toward Rule of Law*, Cambridge, Cambridge University Press, 2002, *China Modernizes: Threat to the West or Model for the Rest?*, Oxford, Oxford University Press, 2007, and 'A government of laws: democracy, rule of law, and administrative law reform in China', in Zhao, op. cit., pp. 58–78. For a contemporary analysis of the pertinence of the Confucian tradition see: Nicolas Zufferey, *Introduction à la pensée chinoise*, Paris, Hachette, 2008, and the works of Daniel A. Bell, *The Cultural Contradictions of Capitalism*, New York, Basic Books (Perseus Books), 1996 (twentieth anniversary edition with a new after word by the author), *Beyond Liberal Democracy: Political Thinking for an East Asian Context*, Princeton, Princeton University Press, 2006, and Daniel A. Bell (ed.), *Confucian Political Ethics*, Princeton, Princeton University Press, 2008, and Daniel A. Bell and Hahn Chaibong (eds), *Confucianism for the Modern World*, Cambridge, Cambridge University Press, 2003.

58 It is not necessary to insist here on the various means used by Western countries to introduce elections in other countries.

59 See for example Fareed Zakaria's article published in the world famous and authoritative American journal *Foreign Affairs*: 'The rise of illiberal democracy', *Foreign Affairs*, vol. 76, no, 6, November–December 1997, pp. 22–43.

60 Leon Fuller, *The Morality of Law*, New Haven, Yale University Press, 1976.

61 An in-depth development of the problematic of rule of law is presented in Peerenboom, *China's Long March Toward Rule of Law*, op. cit., especially chapter 3: 'Post-Mao reforms: competing conceptions of rule of law', pp. 55–125.

62 Randall Peerenboom, *China Modernizes: Threat to the West or Model for the Rest?*, op. cit., pp. 306–7.

63 Ibid, p. 307

64 Ibid, p. 288. Peerenboom continues to say:

> China's socialist rule of law, Singapore's soft-authoritarian or communitarian rule of law, Islamic rule of law, and liberal democratic rule of law will produce different outcomes in particular cases because the laws and practices reflect different values.

> […] laws must reflect social norms and conditions. Liberal laws are not always appropriate. When laws are radically at odds with the deeply held views of the dominant majority, they are rarely implemented. This creates a gap between law on the books and the actual practice that undermines respect for the legal system and rule of law, and fuels resentful nationalism in Asia and other developing countries over the neo-imperialistic imposition of contested values.

65 In this sense the article of Zacharia, op. cit.

66 Peerenboom, *China's Long March Toward Rule of Law*, op. cit., pp. 145–7, explains 'why we can't simply abandon rule-of-law talk or reserve rule of law for liberal democracies'.

67 Ibid, pp. 71–109, develops four ideal types: liberal democratic, communitarian, neo-authoritarian, and statist socialist.

68 Available online at: www. China.org.cn (accessed 10 March 2009). In his report Wu Bangguo discussed the differences between the Chinese and the Western political systems: 'China adopts a system of multiparty cooperation and political consultation under the leadership of the CPC, not a Western-style multiparty system, which enables different parties to come into power in turn through elections. […]' Wu's remarks were viewed as a response to the advocation by some people that the Western style multiple party system should be introduced in China, and that the system with the separation of powers and a two-chamber parliament should be created in the socialist country.

69 Peerenboom, *China Modernizes*, op. cit. pp. 31–3.

70 See chapter 3, point 1.1.

71 This law establishes a better protection for employees and workers and allows them to file labour arbitration cases free of charge; as a consequence, labour arbitration cases have increased very much in 2008. This law has been submitted for advice to a variety of organizations, including private enterprises, and has attracted the most vigorous objections from representatives of foreign companies doing business in China; for example, it was opposed by the American and European Union Chambers of Commerce and the US–China Business Council, representing virtually all the European and American companies operating in China. They objected to most proposed provisions and threatened to withdraw investment and move to more competitive places in terms of labour cost. See Lin Chun, 'Against privatization in China: a historical and empirical argument', *Journal of Chinese Political Science*, vol. 13, no. 1, 2008, p. 23, note 30.

72 Mrs Xin Chunying, deputy director of the Legislative Affairs Commission of the Standing Committee of the National People's Congress, declared recently that 'the labour contract law has nothing to do with the financial crisis and won't be revised for it'. Available online at: www.china.org.cn (accessed 10 March 2009). With regard to migrant workers: Alan De Brauw and John Giles, 'Migrant labor markets and the welfare of rural households in the developing world: evidence from China', World Bank, 10 February 2008, consider that migrations from rural villages led to significant increases in consumption per capita, and this effect is stronger for poorer households within villages. See also Tang Wenfang and Yang Qing, 'The Chinese urban caste system in transformation', *The China Quarterly*, December 2008, pp. 759–9, who consider that 'while migrant workers continue to occupy more blue-collar and service jobs than urban residents, their economic, social and political status has improved', p. 759. It is also interesting to note that the Chinese Trade Unions have admitted 47 representatives of migrant workers to the last national congress of October 2008 (*China Daily*, 17 October 2008) which shows that their status is being recognized; see also Gloria Davies and Gaby Ramia, 'Governance reforms towards "Serving migrant workers"; the local implementation of Central Government regulations', *China Quarterly*, March 2008, pp. 140–9. Progress for the organization of elections at the Village level has been recognised by foreign observers; see, for example, The Carter Centre, available

online at: http://www.cartercenter.com/peace/china_elections/index.html (accessed 10 March 2009). Regarding experimentation with electoral methods see: Cheng Li, 'From Selection to Election? Experiments in the recruitment of Chinese Political Elites', *China Leadership Monitor*, note 26, Fall 2008.

73 On the controversy about the 'Washington consensus' see: Joshua Cooper Ramo, 'The Beijing consensus', London, The Foreign Policy Centre, May 2004, available online at: www.fpc.org.uk (accessed 6 June 2009); Joseph Stiglitz, 'Post Washington consensus', Columbia University, Initiative for Policy Dialog, Working Paper Series, 2005, available online at: www.gsb.columbia.edu/ipd/ (accessed 6 June 2009); Yujiro Hayami, 'From the Washington consensus to the Post-Washington consensus: retrospect and prospect', *Asian Development Review*, vol. 20, no. 2, 2003, pp. 40–65.

**Conclusion**

1 Since the Universal Declaration of Human Rights is not legally binding technically, there are no signatories to the Universal Declaration, and therefore it is not part of binding international law. It was adopted by the General Assembly of the United Nations on 10 December 1948 by 48 votes to none and only eight abstentions. The Universal Declaration contains, in addition to its preamble, 30 articles that outline people's universal rights. Some of the rights are: the right to life, liberty and security of person; the right to an education; the right to participate fully in cultural life; freedom from torture or cruel, inhumane treatment or punishment; freedom of thought, conscience and religion; the right to own property alone as well as in association with others. The Universal Declaration has been further completed by the International Covenant on Civil and Political Rights, adopted and opened for signature, ratification and accession by General Assembly resolution 2200A (XXI) of 16 December 1966 (entry into force 23 March 1976 in accordance with art 49).

2 In the first chapter I have analyzed the development of Chinese political culture and shown that it possesses some remarkable differences compared to the one that emerged in the West.

3 Two books shed some light on these problems by analyzing two fundamental historical phenomena closely linked to the question of human rights: the development of science and the development of wealth. Toby E. Huff, *The Rise of Early Modern Science: Islam, China, and the West*, (2nd edn) Cambridge, Cambridge University Press, 2003, and David S. Landes, *The Wealth and Poverty of Nations: Why Some are So Rich and Some So Poor*, New York, Norton, 1999.

4 Francis Fukuyama, *The End of History and the Last Man*, New York, The Free Press, 1992; Samuel p. Huntington, *The Clash of Civilizations and the Remaking of World Order*, New York, Touchstone, 1997.

5 It is interesting to note that each year the US government issues a document pointing out the violations of human rights by China. The Chinese government responds by issuing a document pointing out the violations of human rights by the US. Apart from the rhetoric with which the two texts are written, one must admit that these documents show that both governments are very well informed of the violation of human rights perpetrated by the other country. Moreover, these documents also show that there is not 'a common understanding of these rights and freedoms' which are considered as being of 'the greatest importance for the full realization of this pledge' by paragraph 7 of the Preamble of the Universal Declaration.

6 Just try to imagine what would have been the consequences for Western political culture, had the Roman Empire lasted until the outburst of the First World War in 1914?

7 Of course the difficulties have been further worsened by the civil war, the Japanese aggression, the interferences of Western powers, as well as by the backwardness of China left by the Imperial power.

8 Let us note that, unfortunately, some of the strongest defenders of human rights have violated them since 1948.

9 See for example: Gideon Rachman, 'Conservatism overshoots its limits', London, *Financial Times*, 6 October 2008; Joseph Stiglitz, 'Turn left to sustainable growth', *The Economists' Voice*, Project Syndicate, The Berkeley Electronic Press, September, 2008, available online at: www.bepress.com/ev (accessed 12 January 2009). Here is the opinion of the American think tank Economic Policy Institute (EPI), available online at: http://www.epi.org/pages/epinews (accessed 25 March 2009):

> EPI has long argued that restoring the right to form or join a union would go a long way toward returning balance to labour markets, where bargaining power has been heavily weighted toward employers in recent years. That imbalance has contributed greatly to recent historic increases in income and wealth disparities between the very rich and everyone else.

10 World Bank, *From Poor Areas to Poor People: China's Evolving Poverty Reduction Agenda. An Assessment of Poverty and Inequality in China*, March 2009, p. iii, available online at: www.worldbank.org (accessed 25 March 2009). Moreover, the World Bank considers that 'measured by the new international poverty standard of $1.25 per person per day (using 2005 Purchasing Power Parity for China), the levels of poverty are higher, but the decline since 1981 is no less impressive (from 85 in 1981 to 27 percent in 2004).

11 Quite frankly, I do not know any political party, or coalition of parties, that is in power and does not want to maintain power. Of course, as we have shown in chapter 4, the CPC maintains power with means that are not normally used by Western countries.

12 This is also the opinion sustained recently by Joseph Stiglitz, *Around the World with Joseph Stiglitz: Perils and Promises of Globalization*, a documentary film realized by the author, 2009. Let us note that Stiglitz has praised the Chinese development strategy for a long time. To my knowledge the first time he publicly analyzed and supported this strategy was in 1998 when he presented to a conference at Peking University, Beijing, October 1998. Forecasts of China's collapse can be found in Gordon G. Chang, *The Coming Collapse of China*, New York, Randon House, 2001; Thierry Wolton, *Le grand bluff chinois. Comment Pékin nous vend sa révolution capitaliste*, Paris, Laffont, 2007; Guy Sorman, *The Empire of Lies: The Truth about China in the XXI Century*, New York, Encounter Books, 2008.

13 Fortunately, these policies are being corrected following the adoption of the new strategy that 'puts people first' (I have presented them in chapter 3) and that are probably being further reinforced today to face the negative consequences of the international economic crisis that has already increased the number of unemployed people.

14 World Bank, *China Quarterly Update*, March 2009, and June 2009, available online at: www.worldbank.org/china (accessed 10 June 2009). On the day of the G20 Summit of 2009 in London, the correspondent of the *Financial Times* in Shanghai writes: 'The Shanghai stock market is by far the best-performing market in the world this year and the Shanghai index is the only equity leading market to have risen since Lehman Brothers went bankrupt in September', Patti Waldmeier, 'China stocks take to Beijing fiscal policies', *Financial Times*, 2 April 2009. See also Lindsay Whipp, 'Asian shares rise ahead of G20 meeting', *Financial Times*, 2 April 2009.

15 It is not possible to present here the remarkable complexity of Todd's analysis that combines a great variety of variables and approaches, including the structure of families and agrarian societies that he uses for interpreting European history and society: Emmanuel Todd, *L'invention de l'Europe*, Paris, Seuil, 1990. See on the fall of the Soviet Union: *The Final Fall: An Essay on the Decomposition of the Soviet Sphere*, New York, Karz Publishers, 1979, translation of *La chute finale. Essai sur la décomposition de la sphère soviétique*, Paris, Laffont, 1976 (the new edition 1990 presents a new preface by the

author); and on the fall of the American Empire: *After the Empire: The Breakdown of the American Order*, New York, Columbia University Press, 2006, translation of: *Après l'Empire. Essai sur la décomposition du système américain*, Paris, Gallimard, 2002. Other important works include: *L'illusion économique*, Paris, Gallimard, 1999; *Après la démocratie*, Paris, Gallimard, 2008, and Youssef Courbage and Emmanuel Todd, *Le rendez-vous des civilisations*, Paris, Seuil, 2007.

16 Todd, *Essai sur la décomposition de la sphère soviétique* (1990 ed), op. cit, p. ii.

17 See Courbage and Todd, op. cit, chapter 2, pp, 31–40.

18 Fukuyama, op. cit.

19 Huntington, op. cit. For the critique see Courbage and Todd, op. cit., pp. 5–10.

20 In dealing with this question I will more particularly refer to the following published works, apart from my article: Urio, Paolo, 'La gestion publique au service du marché', in Marc Hufty (ed.), *La pensée comptable. Etat, néolibéralisme, nouvelle gestion publique*, Paris, Presses Universitaires de France, 1999, pp. 91–124. For an exceptionally complete overall evaluation of NPM, based upon empirical evidence from a variety of sources, see Ezra Suleiman, *Dismantling Democratic States*, Princeton, Princeton University Press, 2003. For some more radical critiques of liberal democracy and capitalism: Raimon Panikkar, *I fondamenti della democrazia. Forza, debolezza, limite*, Roma, Edizioni Lavoro, 1997, translation from the Spanish of 'Fondaments de la democràcia: força i feblesa', in Els limits de la democràcia. Annals de la XIII Univesitat d'estiu, Andorra la Vella, September 1997, pp. 62–89; Roberto Mangabeira Unger, *What Should the Left Propose*?, London, Verso, 2005, with many references to China; and of the Italian philologist Luciano Canfora, *Democracy in Europe: A History of an Ideology*, New York, Wiley, 2006 (English translation of *La democrazia. Storia di un'ideologia*, Bari, Laterza, 2004), *Exporter la liberté. Echec d'un mythe*, Paris, Ed. Desjonquères, 2008, and *L'imposture démocratique. Du procès de Socrate à l'élection de G.W. Bush*, Paris, Flammarion, 2003.

21 A. Ronchey, 'L'ultima Cina nell'era di Jang' (The last China of the Jiang's era), *Corriere della sera*, 26 September 1999, p. 1, quoted by Luciano Canfora, *L'imposture démocratique*, op. cit., pp. 27–8 (my translation from the Italian). See also the opinion of Peerenboom, although it is not as radical as that of Canfora: Peerenboom, *China Modernizes*, op. cit., pp. 165–83 under the title of 'Why China is held to a double standard'. For a critique of Peerenboom see Leila Choukroune, 'Lectures critiques: Randall Peerenboom', *China's Long March toward Rule of Law*', in *Perspetives Chinoises*, no. 76, March–April 2003, pp. 78–80. Let us note that from 200 B.C. to 1990, China suffered from 1029 floods, 1056 drought, some 800 earthquakes, according to Hu Angang and Zou Ping, *China's Population Development*, Beijing, China's Science and Technology Press, 1991, p. 62.

22 The way in which the majority of the Western media covered the recent Iranian elections is another example.

23 These are just a few of the large number of examples that could be mentioned for sustaining the argument we are developing here. The US is by no means the only country where these phenomena exist.

24 I develop these arguments in my article, Paolo Urio, op. cit.

25 Governments have instituted regulators with the task of supervising these sectors (and the same has been done for supervising the privatized SOEs). When one knows that controller and controlled often share the same university and professional training and values and often have previously worked in the organization they are supposed to supervise, it is not surprising that cases of capture of the controller by the controlled have been frequently discovered. For example: (1) a violent polemic outburst in the Swiss media in February–March 2009 when it was revealed that the Regulator of the Swiss financial market approved the bonuses UBS bank (that had just received public money to avoid bankruptcy) planned to pay to its managers, and that the president of the regulator was a former member of the direction of UBS, while its director was a

former member of Credit Suisse and Swiss Re (as reported by the *24 Heures* newspaper, Lausanne, 3 February 2009 and the weekly magazine *L'Hebdo*, Lausanne, 12 February 2009); (2) at about the same time many US newspapers and think tanks reported similar cases; see for example: *Los Angeles Times*, 6 October 2008 ('Regulator takes heat over IndyMac Bank failure'); *The Washington Post*, 23 November 2008 ('Banking regulator played advocate over enforcer'); *Dollar&Sense Real World Economics*, available online at:www.dollarsense.org (accessed 12 March 2009) '(Mis)understanding a banking industry in transition'.

26 This principle corresponds to the practice of the incremental implementation of liberal democracy in Western countries. For a very long time only people considered as sufficiently knowledgeable were granted the right to vote, by using different criteria: for example:

1 a sufficient amount of economic wealth measured by the level of taxation
2 the role played in the economy, according to which only men would qualify, as women were not active in the economy
3 the literacy competence, as it has been used in the US with the main consequence of excluding Afro-Americans.

27 Canfora, *L'imposture démocratique*, op. cit., p. 80, my translation from the French. This is exactly the aim of Jiang Zemin's Theory of the Three Represents.

28 Ibid, pp. 80–1 (my translation from the French). Canfora is in line with the well-established research tradition that points to the development of oligarchies within organizations, no matter their ideology, democratic or authoritarian: Robert Michels *Political Parties: A Sociological Study of The Oligarchical Tendencies Of Modern Democracy*, New York, Collier, 1962; Gaetano Mosca, *Ruling Class*, London, McGraw-Hill, 1960 (translation of *La classe politica*, Bari, Laterza, 1966); C. Wright Mills, *The Power Elite*, Oxford Press (USA), 1956.

29 See for example the article of the *Financial Times* by Gideon Rachman, op.cit. The official organ of the Federation of Enterprises of Western Switzerland expressed the same worries in an article entitled 'Mistakes of private economy do not justify "statist" temptations' (my translation from the French of: 'Les erreurs de l'économie privée ne justifient pas les tentations étatistes'), *Entreprise Romande*, Geneva, 30 January 2009.

30 This is the title of an article published online by the influential American think tank 'Reason Foundation' (that posts online the motto 'Free minds, Free markets'). Available online at: www.reason.com (accessed 7 March 2009). On President Obama's side, *News Week* does not even use the question mark, commenting on a debate between American politicians on Fox News Channel, when a right-wing politician violently questioned Obama's policy. The revealing title of the article: 'We are all socialists now', with an under-title written, I guess, with some regret: 'In many ways our economy already resembles a European one. As boomers age and spending grows we will become even more French.' *News Week* quite reasonably comments: 'If we fail to acknowledge the reality of the growing role of government in the economy, insisting instead on fighting 21st-century wars with 20th-century terms and tactics, then we are doomed to a fractious and unedifying debate. The sooner we understand where we truly stand, the sooner we can think more clearly about how to use government in today's world', article of 16 February 2009, available online at: www.newsweek.com (accessed 7 March 2009). It seems that the time is over when the majority of American opinion leaders used to look down with condescension on the intrusive, inefficient and big French government. Let us note that the most radical critics of capitalism do not hesitate to say that 'the spectre of socialism is haunting the American elite', World Socialist Web Site, available online at: www.wsws.org (accessed 9 March 2009).

31 Joseph Stiglitz is certainly the most influential representative of this group. See, for

example: 'Turn left to sustainable growth', op. cit., and his most recent book: *Making Globalization Work: The Next Steps to Global Justice*, London, Penguin, 2006; see also Joseph E. Stiglitz and Andrew Charlton, *Fair Trade for All: How Trade Can Promote Development*, Oxford, Oxford University Press, 2005. On his side, the American think tank Economic Policy Institute (EPI) considers that:

> Today's recession did not happen overnight. It is the direct result of 30 years of hands-off economic and regulatory policy, which has left Americans coping with stagnant wages, an explosion of high-cost revolving debt, and a crumbling infrastructure. Important public investments in infrastructure and policies that create a direct path to the middle class — those that provide greater access to health care, education, housing and good jobs — have dwindled in the past decades, and diminished government safety nets have left many families without the necessary tools to weather hard economic times. Now, in the aftermath of the collapse of the financial sector and the implosion of the housing bubble, families everywhere are confronted with a cold truth: government failed to protect their interests. This time, an economic recovery that restores us to the old model is not enough.

Message received from *events@epi.org*, 28 March 2009.

32 Interview of Joseph Stiglitz by Nathan Gardels in *The Huffington Post*, available online at: www.huffingtonpost.com (accessed 14 January 2009); and Joseph Stiglitz, 'Davos man's depression', Project Syndicate, available online at: www.project–syndicate.org (accessed 08 March 2009). For a return to an interpretation of capitalism faithful to the 'founding fathers' (especially Adam Smith) and the validity of the foundations of capitalism see Amartya Sen, 'Capitalism beyond the crisis', *The New York Review of Books*', vol. 56, no. 5, 26 March 2009, available online at: www.nybooks.com (accessed 27 April 2009).

33 For a well-documented history of free trade and protectionism see Paul Bairoch, *Economics and World History: Myths and Paradoxes*, New York, Harvester Wheatsheaf, 1993 (French translation: *Mythes et paradoxes de l'histoire économique*, Paris, La Découverte, 1999). For an attack on free trade as it has been practiced until now see Ha-Joon Chang, *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*, New York, Bloomsbury, 2008 and his interview on the website of *Democracy Now*, available online at: www.democracynow.org (accessed 12 March 2009). For a recent defence of protectionism see Emmanuel Todd, *Après la démocratie*, Paris, Gallimard, 2008, especially the Conclusion: 'Le protectionnisme, dernière chance de la démocratie européenne', pp. 249–57.

34 See for example Michel Freitag, *L'impasse de la globalisation*, Montréal, Ecosociété, 2008; and Roberto Mangabeira Unger, *What Should the Left Propose?*, London, Verso, 2005, as well as Roberto Mangabeira Unger, *Free Trade Reimagined: The World Division of Labor and the Method of Economics*, Princeton, Princeton University Press, 2007.

35 See for example *Dollar& Sense Real World Economy* website (www.dollarsense.org, accessed 12 March 2009), that considers that 'the three trillion-dollar transfer of income from taxpayers to bondholders is an economic injustice that should be stopped immediately and it can be stopped — if the government fully and permanently nationalize the banks that are "too big to fail"'; and the influential site of Nouriel Roubini *RGE Monitor* considers that 'Republicans start to support the idea of nationalizing insolvent banks', 15 February 2009 (www.rgemonitor.com, accessed 17 February 2009); and 'Nationalize the banks! We're all Swedes now', 13 February 2009, in which Matthew Richardson and Nouriel Roubini say:

> The US banking system is close to being insolvent, and unless we want to become like Japan in the 1992 — or the United States in the 1930s — the only way to save

> it is nationalization. As free-market economists teaching at a business school in the heart of the world's financial capital, we feel downright blasphemous proposing an all-out government takeover of the banking system. But the US financial system has reached such a dangerous tipping point that little choice remains. And while Treasury Secretary Timothy Geithner's recent plan to save it has many of the right elements, it's basically too late.'

*RGE Monitor* website (www.rgemonitor.com, accessed 17 February 2009).

36 I have discussed the problems of bad loans in chapter 2, point 3.5.3 and chapter 3, point 1.2.

37 See the article by *Reuters Limited*, 'China proposes global monetary overhaul', posted by the *Financial Times Online*, 23 March 2009, available online at: www.ft.com (accessed 23 March 2009); and Jamil Anderlini, 'China calls for new reserve currency to replace dollar', ibid.

38 Full text of the Chinese proposal by Governor Zhou Xiaochuan, *Reform the International Monetary System*, available online at the Bank of China website: www.pbc.gov.cn/english/detail.asp?col = 6500&id = 168 (accessed 23 March 2009).

39 As reported by the *Wall Street Journal Online*, 30 March 2009, available at: http://asia.wsj.com (accessed 5 May 2009). Although the majority of observers do not consider that this is likely to happen in the near future (e.g. Geoff Dyer, 'China has long way to go to dislodge dollar', *Financial Times Online*, 21 May 2009, available at: http://www.ft.com (accessed 9 June 2009), or even not at all, some on the contrary announce the dethroning of the US dollar by the yuan as an inevitable event. See, for example, the investment director of *Money Morning*, Keith Fitz-Gerald, 'China seeks to dethrone the dollar. Transforming the yuan into the dominant currency', available online at Money Morning website: www.moneymorning.com (accessed 28 May 2009):

> China has taken yet another step to transform the yuan into the dominant currency, a long-term initiative that could ultimately dethrone the dollar as the world's top unit of exchange. In the last four months alone, China has signed currency swap agreements worth more than $95 billion (650 billion yuan) with an array of nations — including Argentina, Brazil, South Korea, Indonesia, Malaysia, Belarus and Hong Kong — that are only too glad to move away from the increasingly shaky US dollar. […] the Chinese yuan is already well on its way to becoming that globally accepted standard unit of exchange and the proverbial genie, as they say, is out of the bottle.

For the new ties between China and Brazil see two articles by Jonathan Wheatley, 'Brazil and China eye plan to axe dollar', *Financial Times Online*, 18 May 2009, and 'China bolsters Brazil trade ties', 19 May 2009, available at: http://www.ft.com (accessed 09 June 2009). For the agreement between China and Argentina see Jude Webber, 'China and Argentina in currency swap', ibid, 31 March 2009.

40 For a debate about capitalism see the interesting blog of the *Financial Times Online* (http://blogs.ft.com/capitalismblog/). For slogans attributed to Chen Yun: James L. Chan, 'Two paradigms for managing China', paper presented at the conference on New Public Management in International perspective, University of St Gallen, Switzerland, 11–13 July 1996.

41 Giuseppe Di Lampedusa, *The Leopard*, New York, Pantheon-Random House, 2007. The exact sentence in Italian is: '*Se vogliamo che tutto rimanga come è, bisogna che tutto cambi!*'.

42 Joseph, Stiglitz, 'Spring is here, but contain your excitement', *The Economists' Voice*, Project Syndicate, The Berkeley Electronic Press, May 2009, available online at: www.bepress.com/ev (accessed 24 June 2009). For the banks: 'Repeating the Savings & Loan debacle of the 1980s, the banks are using bad accounting (they were allowed, for example, to keep impaired assets on their books without writing them down, on fiction

that they might be held to maturity and somehow turn healthy).Worst still, they are being allowed to borrow cheaply from the US Federal Reserve, on the basis of poor collateral, and simultaneously to take risky oppositions.' For the US government: 'The American government, too, is betting on muddling through: the Fed's measures and government guarantees mean that banks have access to low-cost funds, and lending rates are high. If nothing nasty happens […] the banks might just be able to make it through without another crisis […] but experiences around the world suggest that this is a risky outlook.' And Stiglitz concludes: 'it's time for Plan B in banks restructuring and another dose of Keynesian medicine'. Already in December 2008 Stiglitz had written an article advocating the return of Keynes: 'The triumphant Return of John Maynard Keynes', *The Economists' Voice*, Project Syndicate, The Berkeley Electronic Press, September 2008, December 2008, available online at: www.project-sydicate.org (accessed 6 January 2009).

43 François Bouvard, Thomas Dohrmann, and Nick Lovegrove, 'The case for government reform now', *McKinsey Quarterly*, no. 3, 2009, pp. 1–13.

44 See the article of the *Financial Times* of 6 October 2008 by one of its leading columnists, Gideon Rachman, op. cit.

45 *McKinsey Quarterly*, op. cit., p. 2, where it is argued that a 15 percent or more productivity improvement in the US government 'from a major private-sector change programme would result in savings to taxpayers that would exceed $134 billion annually on 2010 federal addressable spending of approximately $900 billion'.

46 It should be noted however that neo-liberal opinions are still present today in policy debates in China. For example, the *Caijing Magazine* has posted on its website, on 19 March 2009, an article by two of its staff reporters summarizing the debates about the new Chinese health system, in particular the discussion held on 7 March between officials of the Ministry of Health and members of the Chinese People's Political Consultative Conference (CPPCC), in which sit representatives of the so-called 'democratic parties' as well as other representatives of civil society. Some members of the Conference 'expressed reservations about […] the efficiency of reform if the government — not the market — becomes the dominant force in distributing health care resources'. Professor Gu Xin, professor of public administration at Peking University and State Council appointed specialist for evaluating medical insurance for township residents, has expressed the idea that 'the market is usually more effective than executive administration, especially in China where administrative professionalism is low'. Finally, the Caijing article reports that 'some CPPCC delegates suggested that all medical institutions should be market-oriented'. These opinions would be quite alarming, should they be heard and implemented by the Chinese leadership in this domain as, to quote just one aspect of the present Chinese situation in health care, patients in recent years have covered 50 percent of all medical costs from their own pockets, according to China Health Economic Institute, quoted by this Caijing article, and we know that the marketization of the health sector has cut access to health care for a large sectors of the Chinese population, which cannot afford to pay out of pocket. Ren Bo and Liu Jingjing, 'Local government costs and doctors' pay are among the unfinished issues for health care reformers, whose task appears far from done', *Caijing Magazine Online*, 19 March 2009, available online at: www.english.cajing.com.cn (accessed 04 May 2009).

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