

MAPPING CHINA

**China Model, Beijing Consensus, State Capitalism, East Asian Developmental State or Varieties of Capitalism?
On the issue of conceptualizing China's politico-economic system**

Written by

Aya Adachi

Abstract

China's rapid economic development has inspired many scholars to write about how it was achieved and which role state-industry relations played in fostering growth. The diversity of the vast literature on the topic has brought forward various conceptual ideas, including the China Model, Beijing Consensus, as well as positioning of the Chinese case within the debate of State Capitalism, East Asian Developmental State and Varieties of Capitalism. This Working Paper presents a literature review on the various conceptualizations of China's politico-economic system and maps out the ontological scopes of the "battle of ideas". When referring to and basing an argument on one of the concepts, balancing between the issue of conceptualizing the political economy of China as a whole and accounting for the sum of its highly diverse parts has profound ontological implications on subjective assessment in an analysis.

Aya has obtained her MA degree in International Relations at University of Groningen and a BA degree in Economics and Politics of East Asia at Ruhr University Bochum. She is currently working as a freelance consultant for Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH in Beijing.

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1. Introduction

China's rapid economic development has inspired many scholars to write about how it was achieved and which role state-industry relations played in fostering growth. Competing ideas on how to make sense of China's development has resulted in a staggering amount of literature. In the following the debate around the China Model, Beijing Consensus, State Capitalism, East Asian Developmental State and Varieties of Capitalism are discussed. In section two, the paper refers to literature on state-industry relation that is removed from the before evaluated dominant classifications and lays out relevant institutions and actors before conclusions on profound ontological implications on subjective assessment are drawn.

China Model or Beijing Consensus

Debates about the China Model or Beijing Consensus have received wide attention, however, there seems to be little agreement in and outside China over the characteristics of a distinctly Chinese model of development. Understood as an inherently social and political concept, the very idea of Beijing Consensus seems to have been constituted by the "other" – the rather unchallenged and naturalized Washington Consensus, which embodies a neoliberal set of policies, such as fiscal discipline, trade liberalization, deregulation, privatization state

ownership, liberalization of inward directed foreign direct investment and others. The function of the Beijing Consensus seems to solely provide an alternative and therefore appears very vague without its constitutive relation to the Washington Consensus. In search of a definition of the Beijing Consensus, Matt Ferchen has analyzed not only the discourse outside of China, but also how the Chinese Communist Party and competing groups of the New Left and liberal public intellectuals, have shaped the debate and interpreted the Washington Consensus (Ferchen 2013). He demonstrates that the variety in definitions of the Beijing Consensus and the China Model reflects the battle of ideas in how best to explain state-industry relations.

Generally, the debate of the Chinese politico-economic system has been shaped by three currents of thought that differ in ontological scope: state capitalism and Leninist organization principles; Listian ideas on development and the East Asian developmental state; and the varieties of capitalism scholarship.

State Capitalism and Leninist organization principles

First, it can be argued that the Chinese system is state capitalist, which means that the state has control or ownership over key sectors of

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the economy such as steel, coal, electricity transport and financial industries, allowing it to steer the overall of the economy through price control. In line with conceptualizing the Chinese politico-economic system in state capitalist terms, it has been argued that the Leninist institutional legacies of the hierarchical and dual structure of the state and the party have provided the CCP with a strong capacity to formulate industrial policy (Collins & Gottwald 2014; Dickson 2008). According to the Leninist guiding principle of democratic centralism, the penetration into all areas of society enables the party to be informed about ideas and ongoing issues from the bottom-up while being inclusive of these concerns when making decisions from the top-down (Lenin 1906). This guiding principle was misused as centralism during the era of authoritarian planned economy (1949-1976) making the state apparatus ineffective in formulating functioning industrial policy. However, the bottom-up informational resources provided by the reach of party have grown in importance following the gradual political and economic decentralization.

East Asian Development State and Listian Ideas of Development

Second, the aspect of embeddedness of the state in society has also been a key concept of the East Asian Developmental State in explain-

ing effective industrial policy and has inspired a number of scholars to argue, that the China model has much in common with these Listian ideas of development, according to which state capacity allows crucial plan rational intervention into society in order to foster and protect infant industries (List 1910/1841). However, comparisons of the Chinese economic development to those of Japan, South Korea, Taiwan and broad theoretical ideas on development by Friedrich List shift the focus away from the role of the one-party state apparatus to the more abstract concept of state capacity (Breslin 2011; Strange 2011; Heilmann & Shih 2013; Boltho & Weber 2015).

Varieties of Capitalism

Third, the varieties of capitalism scholarship is an important contribution to the body of comparative political economy and has recently been used more frequently to study the Chinese economy (Peck & Zhang 2013). As the name implies, the approach of varieties of capitalism, conceptualizes different forms of capitalism clustered around two poles, with the liberal market economies archetypically modeled after the US on the one end, and the coordinated market economy modeled after Germany and Japan on the other (Hall & Soskice 2001). Varieties of capitalism is an eclectic approach that uses multiple levels of

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analysis: it places emphasis on *contradiction* rather than national institutional coherence; uses *relational* aspects that allows inclusiveness of mutual interdependencies between local economies over endogenous and separated logics; explores intersecting and connective *processes*, such as neoliberalization, not only as carriers of convergence tendencies but in the context of combined and uneven development (Sheppard 2011; Jessop 2012). Placing China in this debate is beneficial in terms of being able to compare the Chinese case within a single framework and thus linking it to the broader discussion; and vice versa, China's unique features may innovate and advance the varieties of capitalism scholarship. However, when attempting to utilize the varieties of capitalism framework one is confronted with staggering challenges, as China is highly diverse in regard to multi-level governance with different central-local government relations, Leninist institutional legacies, uneven growth and socio-spatial inequality. The offering of varieties of capitalism formulations on China thus far are heterogeneous and none of them have presented a distinct Chinese variant. While Witt and Redding for example claimed that China fits the classification of liberal market economy (Witt & Redding 2014). Fligstein and Zhang defined China as an idiosyncratic case of coordinated market economy (Fligstein and Zhang

2011). Therefore, polymorphous style of governance has also created a bifurcated scholarship on China's variety of capitalism.

All of these three groups of scholarship struggle to tackle the difficulty of conceptualizing the political economy of China as a whole, while also accounting for the sum of its highly diverse parts, which include the interpenetration of "offshore" markets, supply chains and hence, other forms of capitalisms.¹ The role of regional differences and disaggregating economies have gained traction among scholars and have been coined the "subnational turn" in comparative politics (Rithmire 2014).

2. Development in multiple changes and varying speed and spatial dimension

More broadly and generally, the Chinese politico-economic system has moved away from a central planned economy and has undergone multiple changes in varying speeds and spatial dimensions since reform and opening. While the state continues to maintain ownership and control over key industries of the economy, it gradually removed authority over some sectors. As a way to manage risks in such an enormous territory with a vast population, the government gave up central control in varying degrees and provided local governments with a certain

¹ Hongkong, Taiwan and Free Trade Zones (e.g. Shenzhen & Shanghai)

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scope of action to let them participate in designing economic policies that were more fit to serve local conditions. In particular, local governments have increasingly enjoyed discretion in implementing policy, which has allowed them to consider interests of local businesses (Hillmann 2010). By tying revenue growth to the career progression of local officials in conjunction with fiscal decentralization, local governments were incentivized to developing the regional economies.

Despite liberalization private business continued to face harsh restriction. Instead, Town and Village Enterprises that originate from the Mao era were readjusted, increased in numbers and played a crucial role in the overall economic growth in China until the mid 1990s (Oi 1995). However, this local developmental enthusiasm also created industrial overcapacities and struggle with inefficiency and was therefore reformed and privatized in the mid 1990s (Naughton 2007).

Following an increasing struggle of taxation between central and local government, fiscal reform was introduced in 1994 which reduced the subnational share of national tax revenues from 70 to 40 percent in conjunction with further decentralization of public expenditure responsibilities (Montinola, Qian & Weingast 1995). By increasing the budgetary and patronage resources of the center, this fiscal re-

versal made TVEs immediately less attractive as vehicles for economic growth, but created new incentives for putting forward a new form of real estate developmentalism (Breslin 2012). The regulatory structure entrusts local authorities the ability to control who is allowed to operate and who is not through licensing (Chou 2006).

The *hukou* regime, the household registration system provided the central government with a mechanism to manage migration of workers from the countryside to cities (Chou 2006). As this *hukou* system only offers rudimentary protection against land deprivation, vulnerable farmers are exposed to arbitrary power of local officials and developers (Fewsmith 2009). While labor-union mobilization has been generally controlled in the shadow of the CCP under the disguise umbrella organization All China Federation Trade Union (ACFTU), trade unions on the local level are able to provide some support to workers whose rights have been violated (Ding, Goodall & Warner 2002).

Furthermore, an important practice in dealing with fostering economic growth and creating diversity in state-industry relations is *policy experimentation*, which has been used to test ideas on a smaller scale (e.g. Special Economic Zones) that were then applied across the coun-

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try (Heilmann 2009, 2007; Heilmann & Perry 2011). Thus, the policy-making that has emerged can be described as being dialectically shaped by an interplay of central as well as local forces (Heilmann 2009). China's interregional differences in historical legacies, resource endowments, leadership capacities and local politics considerably shape both local government's performance and plurality in economic development models more generally.

As a result of China's variegated development policies various shapes of firms with different forms of ownerships and diverse relations with the government have merged, which include: SOEs in key sectors; Town and Village Enterprises; Joint Ventures, foreign invested enterprises; private firms with state owned shares; and start-up companies in strategic sectors that enjoy preferential treatment (e.g. ICT). In fact, it is almost futile to determine the exact ownership structure of Chinese business corporations (Breslin 2012; Walter & Zhang 2008). Despite substantial liberalization of most economic sectors, the state is able to use the lack of transparency in market conditions, regulations, fiscal responsibilities, and first and foremost the financial system to support and protect private enterprises. All of these forms of enterprises have in common, that they maintain a close relationship to relevant ministries

or administrative branches. While SOEs are tied to administration and managed by the State-owned Asset Supervision and Administration Commission (SASAC), other entrepreneurs also regularly interact with local officials to get their voices heard.

Local business associations and chambers of commerce play a limited but increasing role in coordinating interests of private enterprises. As they have non-hierarchical and flat organizational structure they are not under the control of trans-sectoral associations. Furthermore, they often overlap, compete against each other and are horizontally separated (Kennedy 2005). These business associations are required to register with the government and staffed with some government officials, due to which they are often assumed to not have sufficient autonomy. However, precisely these constraints push associations to interact with the government, through various direct and indirect channels. These government-business interactions depend heavily on the different economic circumstances of individual firms and the industry to which they belong.

The dynamics between central and local governments have also created tensions within the political elite. These issues have increasingly challenged by the implementation constraints

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and competing parochial interests. The role of the NDRC has been strengthened to serve as an interface of development interests and grew in capacity in the midst of the global financial crisis in drafting crisis responses (Heilmann & Shih 2013). The NDRC originates from the former State Planning Commission and later State Development Planning Commission, and was restructured in 2003 to work with all central level ministries related to the economy in order to coordinate the horizontally divided economy. Despite these efforts to coordinate development policies, issues of overcapacities and local government debt have increased as a result of crisis response and constitute a looming threat to the Chinese economy, which increased the strain on relations between central and local governments (Cheng 2015). In this light, the presidency of Xi Jinping can be regarded as a reclamation of control over society and the economy to the center. Since Xi Jinping took over the presidency, measures have been taken to restructure decision-making, including the locus of economic policy-making: early on, Leading Small Groups equipped with executive authority were introduced and have caused a shift in the process of policy-making towards Beijing and the CCP (Ahlers & Stepan 2016; Naughton 2016).

These recent developments may indicate some changes in state-industry relations and are important for future analysis. Furthermore, this recentralization of power signifies the tautological nature in assuming that China will inevitably become a market economy following liberalization. Thus, rather than basing the idea of China Models on the perpetuated idea of state-market dichotomy, the two constitutive elements should be ontologically conceptualized as one entity, in which state-industry relations are constantly shaped and reshaped by actors triggered by changes in external and internal circumstances.

3. Conclusion

If the debate surrounding the Chinese economic development provides any lesson at all, it lies in how these contributions epitomize the myriad of complexities that constitute the Chinese economy. Therefore, it is important to remove oneself from the dominant classifications of the China models, and weigh the complexity of state-industry relations more generally against identifying the important aspects and areas that vary on the analysis at hand.

When referring to and basing one's argument on "the" China Development Model, Beijing Consensus, East Asian Developmental State or State Capitalism it is important to be aware of

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the ontological scope of the concept chosen and how it frames one's argument. As state-industry relations in China vary depending on the industry and the region it can be valuable to look at actors and institutions relevant to the analysis at hand instead of relying on a framework that might not be sufficient in explaining development in a specific area.

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