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## **CHINESE DEMOCRACY IN THE MAKING: IS IT A WAY FORWARD IN DEMOCRACY PROMOTION?**

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### **Abstract**

As the most populous country of the world, China maintained the largest economy on earth for most of the recorded history of the past two millennia but its stable performance in terms of economic growth in the last few decades has been the envy of others around the world. The Financial Times noted that China has been the world's largest economy for 18 of the past 20 centuries, while according to The Economist, "China was not only the largest economy for much of recorded history, but until the 15th century, it also had the highest income per capita - and was the world's technological leader." As early as 1820, China accounted for 33% of the world's GDP. Barely a hundred years later, the scenario was completely different. By the early part of twentieth century, China accounted for only 9% of world's GDP. The primary explanation for the relative eclipse of China lies in the fact that the industrial revolution of the nineteenth century, which made Europe and then America rich, almost completely bypassed China. But they gained the momentum again and did not take long to be on track of stable economic growth again. What are the factors that made China so promising in the wide horizons of world economy? How does the economic system of China adapt with the changing dimensions of global economy? How does the communist political system shape the economic system of China that maintains its staggering economic performance? What are the distinct features that China has to adopt in this era of globalization? Is China diffusing itself

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with the virtues of democracy or is it acquiring a unique embodiment of political system? The article explores these questions and come up with conclusions based on China's political and economic experience.

## 1. INTRODUCTION

In the summer of 1989, an essay entitled the 'End of History' was published by Francis Fukuyama, arguing that the establishment of political perfection and peace had been uncovered in the 'ideal' twin pillars of a liberal democratic state and a market economy. That same summer, student protests presented the ruling Chinese Communist Party (CCP) with the most serious challenge to its leadership since the onset of economic reforms in the late 1970s. With Soviet and Eastern European authoritarian and communist regimes giving way to some form of rapid political and economic opening in the late 1980s and early 1990s, the stage was set for China to follow suit. Consistent with Fukuyama's thesis, Western powers adopted the policy of 'constructive engagement' with remaining authoritarian states; implying that through trade, investment, and exchange between cultures and people, China would come to depend on Western funds and technology, which could in turn be used as leverage to oblige further opening and reform, and perhaps even regime change in the world's most populous nation (Lynn, 2002).

However, far from collapsing under its own weight and confirming the consensus of Fukuyama and other leading neo-conservative thinkers, China's particular authoritarian regime, having sustained remarkable average annual growth rates and poverty reduction over the last two decades, "is not supine, weak, or bereft of policy options" (Ravallion and Chen, 2004). As such, and in contrast to Soviet and Eastern European reform experiences, "the new Chinese leaders do not feel that they are at the end of history." (Nathan, 2003:15) With the Chinese government proving to be more resilient than previously thought, some have questioned if China's path of development provided a rebuttal, if not a refutation, of Fukuyama's argument. As Birdsall *et al* asked,

The idea may sound radical, but would China have been better off implementing a garden-variety World Bank structural adjustment program in 1978 instead of its own brand of heterodox gradualism? (Birdsall, Rodrik and Subramanian, 2005).

In seemingly going against the grain of an international consensus, China's rise on the international stage comes at a propitious time in democracy studies, as a backlash against democratic promotion has emerged in response to a lacklustre record of multilateral and unilateral interventions to rebuild failed states and establish democracy in

developing countries; culminating to a pinnacle following failed US efforts to stabilize and rebuild Iraq in the aftermath of the 2003 invasion. (Wolf, 2006, Ignatieff, 2005) Meanwhile, Fukuyama has ideologically detached himself from his neo-conservative colleagues to stress nuances in the importance of sequencing of democratic and economic liberalization, working in conjunction with institutions, as essential in achieving the twin pillars of development in any meaningful and substantive sense (Fukuyama, 2005, 2006). This has created new catchphrase qualifications for the liberal ideal, such as: Fukuyama's 'realistic Wilsonianism', or Wolf's 'liberal realism'. As Wolf remarked,

This does not mean abandoning the goal of democracy: as market economies take hold, democracy tends to emerge, as happened in Taiwan and South Korea, and democracy remains an attractive ideal, as the "colour revolutions" in the former Soviet Union have shown. But it does mean accepting that democracy is one of several desirable aims, recognising the obstacles to imposing it from outside, admitting that elections do not alone create freedom and, above all, understanding what makes each society's evolution unique (Wolf, 2006:13).

Thus, as an international 're-think' on the quality of democracy promotion is possibly underway, this paper uses the development experience of China's post-1978 reforms, in recognition of its successful unorthodox application of political and reform policies in order to highlight an institutionally innovative and domestically driven alternative to prevailing approaches to democratization. If these arguments are persuasive, a deeper appreciation and acceptance of unorthodox policy practices and challenges may result, as well as a (pragmatic) willingness on the part of Western governments and international organizations to more effectively engage developing countries, emerging or otherwise, and assist them with policy prescriptions that are for both their sake and that of multilateral stability, not short-sighted domestic political pressures.

The paper argues that despite the many challenges that lay ahead for China's current and future leaders, its gradual and incremental approach to economic reform, with slight political reform, has exuded a maturing institutional capacity similarly found in the development of neighbouring Japan, South Korea, and Taiwan - the other so-called East Asian 'miracle' economies (World Bank, 1993). This can be seen, for instance, in comments by Pei,

Moreover, the Chinese leadership has retained its ability to intervene in the marketplace and, consequently, avoided the catastrophic mistakes

made by developing countries that have fully embraced neoliberalism (Pei, 2003:74).

As Chinese leaders have often used these countries as templates from which to design their own unique reform plans, China's economic reforms are already showing strong indications of following in similar developmental footsteps (Wolf, 2005, Prasad and Rumbaugh, 2003). Although its future prospects are difficult to accurately surmise, China's focus on transforming its economic structure and creating new sources of wealth, if distributed relatively equitably, can contribute to a development trajectory that reinforces the growth and strengthening of a domestic constituency calling for substantive democratization of Chinese politics and society.

Following the introductory discussion, the rest of this article examines, among others, the reasons underpinning a backlash against democracy, and its apparent failure to flourish in many developing countries around the world. It also provides a spectrum of the various arguments put forward by academics on the future prospects of democracy in China. Although many of these views offer negative assessments for future Chinese democracy, this paper also emphasizes evidence of strong similarities between China's chosen path of development and that of its East Asian neighbours. If these similarities hold, particularly related to patterns of income distribution, the prospects for democracy in China could indeed be greater and sooner than what many commentators currently predict. Finally, the article concludes with key points of China's development framework, and how this flips conventional Western policy prescriptions onto its head, followed by a discussion on whether lessons from China can act as a broad framework for other developing countries.

## **2. BACKLASH AGAINST DEMOCRACY**

In the past few years, the broader public backlash against democracy promotion has spread across the globe, from the former Soviet Union, to Western Europe, Latin America, the Middle East, and elsewhere. Much of this hostility, it is argued, has to do with the manner that President George W. Bush has made democracy promotion the central plank of American foreign policy. Firstly, US democracy promotion has come to be equated with 'regime change' of governments not favoured by Washington. This has made the 'freedom agenda' even more menacing and hostile to authoritarian governments worldwide, allowing these leaders to portray themselves as resisting encroaching US interventionism and further curtailing any political opening. Secondly,

the Bush administration has severely damaged the credibility of the US as a moral symbol of democracy and human rights. This has allowed dissenters of democracy promotion to inquire about the apparent US double-standards: “How can a country that tortures people abroad and abuses rights at home tell other countries how to behave?” (Carothers, 2006).

Of course, the record of democracy promotion extends beyond the years of the latest Bush administration. Such efforts can be said to have gained prominence particularly in the 1990s, as previous international norms of strict non-interference in the internal political affairs of other countries seemed to dissolve. This led to a flurry of international democracy promotion programmes that can be said to have only produced mixed results to date. Among the most common reasons leading to failure is the lack of understanding of the local context and culture. All too often, programmes have fixated with an export industry with the aim of maximizing the volume of trade between donor and recipient countries. As such, rather than being individually tailored, many programmes have been “taken off the shelf of Western experience”, with little effort to consider local conditions, or previous initiatives to reform political institutions. As Miller noted,

Too often governance has been approached as if it were a purely technical problem where once you have got the techniques right – the rules, procedures and organization – all else will fall into place. Nothing could be further from the truth. The real challenge is to achieve alignment between the tip of the iceberg – the rules and procedures – and the three-fifths that is below the surface – the norms, customs, and values (Miller 2005).

In the light of this record of performance, the following quotations’ unexpected consequences with democratic development in many developing countries may not come as a surprise,

Since the fall of communism, crime has proved the quickest route to consumption rather than the advent of democracy and a well functioning market economy (Gotze, 2004).

In some cases, such as Namibia and Mozambique, elections clearly played a vital role in making a decisive break with the past. In others, such as Angola, flawed elections created more problems than they solved. In Haiti, administrative inefficiencies undermined the credibility of the broader electoral process. By contrast, in Cambodia, technically successful electoral processes were soon overwhelmed by the realities of power politics. And in Bosnia, premature elections helped to kick-start the façade of democratic politics, but also helped

nationalist parties cement an early grip on political power (Reilly, 2002).

Such inconsistent outcomes are a result of the ahistorical approach to democracy building that took place in many countries worldwide. As Miller noted, implanting the ‘trappings’ (rules and procedures) of democracy cannot ensure its quality or its consolidation within society at large (norms, customs, values). Indeed, if political rights are not embedded in well-established civil rights, the resultant political order will deviate from the basic contours of liberal democracy as “political freedoms may open the door for a distorted type of democratic policy.” (Armony and Schamis, 2005).

Although these considerations have resulted in greater awareness and study of the quality of democracy, Plattner cautiously highlights two dangers of such trends: first, in order to develop measurable indicators of democratic quality, there is a tendency to oversimplify the complexity of the issue; second, the tendency to frame specific political preferences of academics as objective standards of quality (Plattner, 2004). As such, it may be useful to provide an alternative, if older, model to frame how democracy promotion should be conducted. As Chen commented,

Until about a half-century ago, movement toward democracy was an incremental, long-haul process whose origins could be traced back to a tradition of political pluralism. Progress toward liberal democracy would occur against a broad political background in which virtually all the democratic components, such as separation of powers, constitutional rule, and parliamentary sovereignty, had been gradually instituted. Democracy became fuller as the right to vote extended to ever wider classes of people (Chen, 2003:52).

In short, consolidated institutional and democratic development cannot be removed from its historical context and “regarded as an institutional form that owes little or nothing to the historical forces that created it.” (Miliken and Krause, 2002) As such, democracy promotion needs to be viewed in a context of dynamic and evolutionary institutional change over time, as opposed to simple traits somehow acquired and crossed-off a superficial, if misleading, checklist of ‘good policies’ to be implemented. To this end, Rose-Ackerman offers an alternative approach in her study of how to effectively establish property rights law in weak states,

Detailed work on particular societies suggests that mixed systems sometimes can function well where elements of traditional property relations survive in the modern world. There appear to be numerous examples of property rights regimes that depart from the standard

economist's solution of clearing title to individual plots. The explanation for the survival of these mixed systems seems to be a blend of economic rationality and political expediency (Ackerman, 2004).

### **3. DEMOCRACY WITH CHINESE CHARACTERISTICS**

While China's path of post-1978 reform certainly presents an illustrative case of a country pursuing its self-defined goals and strategies with a great deal of success, there is also a consensus that issues of socio-economic disparities, environmental degradation, and lack of civil rights are ongoing challenges that are increasingly undermining the legitimacy of the CCP regime (He, 2003:67).

Thus despite signs of resilience, there is also the question of whether China's political system is currently undergoing a process (or trajectory) of institutional learning or one of crony capitalism and decay. A spectrum of perspectives in this debate is first surveyed, followed by evidence of institutional capacity allowing China to follow a path of development similar to that of East Asian neighbours - Japan, South Korea and Taiwan. Given that these countries only substantively democratized about 30 years after the beginning of their respective periods of fast growth and industrial transformation in the 1950s and 1960s, could China follow suit? Although China's development obviously remains a work in progress, it is the management of fast growth with relatively equitable income distribution that will ultimately determine whether it is truly following in the footsteps of its neighbours.

#### **3.1. Democratic Trajectory**

There is little disagreement that the Chinese regime still faces massive challenges to its survival. However, diverging views on China's democratic development can be understood as different interpretations of the character of China's political system, its institutional capacity and motives, and thus on prospects for democratization.

On the edges of this debate are Nathan (2003) and Yang (2003), on the one hand, and Gilley (2003), on the other. Nathan stresses the seeming resilience of China's authoritarian system, seen in its increasing tendency to institutionalize, if informally, political behaviour and rules. Rather than succumb to the normally fragile conditions of its governance, such as weak legitimacy, excessive reliance on coercion/patronage networks, and centralization of decision making, Nathan focuses on four areas where the Chinese regime has shown increasing signs of institutionalization, i.e., (a) norm-bound process to

succession politics; (b) meritocratic over factional consideration in the promotion of upper-level elites; (c) differentiation and functional specialization of party, enterprise and government; and (d) establishment of 'input' institutional mechanisms to enhance political participation and legitimacy of CCP among the public (Nathan, 2003:6-7). Although he does not try to predict whether the government can surmount the many challenges that lie ahead, there has been a clear regime shift "from utopia to development" that appears increasingly stable as a classic authoritarian system (Nathan, 2003:15-16).

Yang, similar to Nathan, contends that beneath the surface Chinese leaders have worked furiously over the past decade to remake the institutions of governance (Yang, 2003:44). Aside from village and local urban elections (which do not belong as part of the state apparatus), Yang looks more closely at economic institutions, observing that central authorities have substantially strengthened the central state's revenue base, while also establishing regulatory institutions to ensure orderly market competition and financial stability. Yang, thus, adopts a more optimistic tone,

In the short and intermediate run, such reforms help bridge the gap between the elite and the masses, and go some way toward curbing rampant rent-seeking. In the long run, an efficient and well-governed administration will be indispensable if and when elite politics do make a democratic transition (Yang, 2003:49).

Gilley takes a much more critical approach to the current Chinese regime, in offering evidence that contradicts Nathan's notion of greater institutionalization. As such, he focuses on the regime's tendency to concentrate power in the hands of a few individuals or factions, which results in the abuse of power, government mismanagement, corruption, weak norms of political conduct, and deteriorating government legitimacy (Gilley, 2003:18). This is seen using the same indicators for institutionalization that Nathan relied upon. For instance, norms and rules governing elite promotions and assignment of portfolios is often violated to the benefit of elite loyalists rather than based on merit. By his account, seven of the nine new members of the Politburo Standing Committee (PBSC) in 2002, the highest decision making authority, were a result of personal loyalties (Gilley, 2003:20-21). Moreover, input institutions such as village elections, local legislatures, or petitions have generally improved governance at the local level, but are very much exposed to 'rule-rigging' by central authorities, which ultimately limits their democratic character. As Gilley contends,



By these standards, the evidence of PRC [People's Republic of China] institutionalization remains faint. Nor does it seem likely that such institutionalization will eventually strengthen. Indeed, since 1949, there have been discernable cycles of consolidation and breakdown in China: The limits of regime institutionalization have been reached before and, in response, the "logic of concentrated power" has reasserted itself. Something similar is likely to happen again and, in due course, weaken the institutionalization apparent at the CCP's recent Sixteenth Party Congress (Gilley, 2003:18).

The remaining authors surveyed here focus on the CCP's efforts to co-opt emerging social elites (successful entrepreneurs, managers, other white-collar employees of foreign or domestic companies, and professionals) and what this means for greater democratization in China. From Dickson's point of view, despite the Party's efforts to reinvigorate rural branches, grassroots CCP organizations are weak and show low recruitment. As such, the Party has pursued a two-pronged strategy of corporatism and cooptation that seeks to include technological and economic elites that have no alternative political agenda, while continuing to exclude those that do. In taking steps to forestall organized political demands from emerging outside of the Party, Dickson strongly doubts modernization theorists' prediction of economic and social development, 'naturally' leading to democratization. Thus, co-opted elites are expected to further defend authoritarian rule, rather than push for democracy. As he noted,

In an authoritarian context, democratization is not the inevitable result of economic growth but rather the consequence of actions by political leaders within the regime and democratic forces in the society at large. Most of China's private entrepreneurs and technical elites have shown little interest in promoting democratization (Dickson, 2000).

As co-opting new elites is seen as a survival strategy merely to adapt to a new social reality, democratization in China is more likely to be obstructed than diffused. Dickson's views are similar to those of Chen, who also believes that efforts to co-opt new social classes are not likely to lead to democratization. He contends that the alliance between ruling elites and other affluent classes will result in further socio-economic polarization in Chinese society that will push China's nouveau riche to further back authoritarianism rather than to demand political reform from the state (Chen, 2003: 54-55). Moreover, state institutions incapable and unwilling to diminishing socio-economic disparities will only heighten class conflict, while the state's alliance with business elites constrain it from adopting much needed measures of income redistribution. As a consequence, China may be trapped in a vicious circle in which political

repression and the revolutionary impulse reinforce each other in a deepening class conflict that precludes a peaceful political opening.

Chen and Dickson's remarks are consistent with a more recent assessment of China's political development by Pei (2006). With the state in control of key sectors of the economy (financial services, banking, telecommunications, energy, steel, automobiles, natural resources, and transportation), it is ultimately Beijing that drives China's business cycle. With the co-opting of new social elites, Pei believes the Chinese economy has fallen victim to crony capitalism with Chinese characteristics: the marriage between unchecked power and illicit wealth (Pei, 2006: 35-37). Pei argues that,

China's much-praised gradualism has produced a bastard system in which bureaucrats, not markets, set certain commodities' prices; banks take big losses on loans that government officials order them to make; and money-losing state-owned enterprises (SOEs) dominate key sectors. Moreover, the government has failed to provide the people with education, public health, a clean environment, or safe workplaces (Nathan, 2006).

Given these trends, Pei believes that China's political system is more likely to undergo decay than democracy. Ironically, he believes that it is the policies the Party used to generate high growth that are compounding the political and social fissures that threaten the regime's long-term survival.

Xiao (2003), however, offers a contrasting view of China's purported crony capitalistic development. Like Dickson, Chen, and Pei, Xiao would agree that new social elites (i.e., technocrats) have become the new power base of the Chinese regime, but rather than merely acting as obedient sheep in support of authoritarianism, Xiao sees these actors as a middle ground (or depolarization) between factional ideological extremes: Western-style reformers, and orthodox communist leftists. As such, technocrats are less encumbered by ideological squabbles, and free to make more or less independent decisions on the basis of "functional rationality and cost-effectiveness as they seek pragmatic ways to handle various problems arising from modernization." (Xiao, 2003:63). Xiao, unlike Dickson, Chen, and Pei, believes that these new social forces will lead to greater political pluralism, and possibly an eventual transition to democracy. This is because new social elites' support for the Chinese regime is on the understanding of the historical phase through which China is now progressing. As Xiao explained,

As economic growth continues and middle-class values continue to spread, this expanding new bourgeoisie will come to see itself as the

country's dominant political force, and to identify the adoption of democratic processes and institutions as keys to its own empowerment. In the end, this class will form the social engine driving China's democratization as middle-class citizens impose ever more stringent tests of legitimacy on their government (Xiao, 2003:62).

Thus, the future of democracy in China would seem to fall on whether the Chinese regime can be characterized as crony capitalism, or as an effective development state (Wolf, 2006). This latter term has often been used to describe the successful development experiences of China's East Asian neighbours, notably Japan, South Korea and Taiwan, countries known to have influenced the development strategy of Chinese leaders since the late 1970s. Indeed, many of the authors surveyed have made the link between China and the development experience of its neighbours, with various interpretations. Gilley (2003:24), for instance, does not believe a 'voluntary withdrawal' of the CCP from power is likely, given its weakness. Dickson is most critical of the modernization theory, and does not see it happening in China for the simple reason that any such initiatives are bound to be at the expense of the CCP's authority (Dickson, 2003:34). On the other hand, Gallagher reveals an important point,

While the business classes in Korea and Taiwan, did not play the role of enlightened, politically liberal bourgeoisie as occurred with their counterparts in the European model of democratization, their growing independence made the united front of authoritarian government and domestic capitalism untenable. In the PRC, however, there is little chance of a private economy to play a central role in political change. Of a small scale and dependent on local government support for its survival, private industry in China is still in its infancy (Gallagher, 2002).

### **3.2. Following in East Asia's Footsteps?**

The remainder of this paper seeks to briefly explain the East Asian model of development, followed by evidence that China is showing signs of institutional capacity in replicating some of the model's core requisites. Thus, the question remains: are there convincing indications that China, up to this point, is also successfully pursuing a similar national development strategy that could lead to the creation of democracy's driving force in China?

In explaining the East Asian model, it is helpful to dissociate it from what is commonly regarded as 'modernization theory'. Although the theory is broadly accurate in describing the economic basis enabling a

solid foundation for democracy, it is often misunderstood as a mere formulaic policy exercise in economic reform, privatization, and integration into the world trading system that will lead to democratic governance. However, while this may seem akin to Fukuyama's 'End of History' thesis, the actual policy package applied by East Asia was almost exactly opposite from what neoclassical economic theory would advise. These countries can hardly be considered poster children for today's global economic rules, having combined their outward orientation with unorthodox policy measures.<sup>1</sup> Indeed, many of these measures are highly discouraged by international institutions, such as the IMF and World Bank, and reveal that East Asian countries did not treat the market as a magic bullet of development, but as complementary to public sector-led planning and goals (Rodrik, 2001). Their national development strategies oversaw two major objectives: (a) broad-based industrial transformation of the economy from low- to higher-value (i.e., inclusion of technology) production and export; and (b) maintenance of relative equitable income distribution, thus allowing wealth to be diversified, while allowing per capita incomes to steadily rise (Wade, 2003; Akyuz and Gore, 1996).

### **3.3. Industrial Transformation**

Since the onset of the reform period, China has used a gradual and experimental approach to reforms that is guided by general principles instead of a detailed blueprint. Part of the strategy was the application of a dual-track strategy, whereby a (already existing) planned track was maintained, while a market track was encouraged in different areas of the economy. This produced efficiency gains at the margin, without creating loser in an absolute sense. This approach, known for its flexibility, adaptability, and pragmatism, is often credited for China's high and stable growth for over the past two decades (Prasad and Rajan, 2006). The dual-track approach was extensively applied by Chinese policy-makers, ranging from sectoral reform, price deregulation, enterprise restructuring, regional development, trade promotion, foreign exchange management, central-local fiscal arrangements and domestic currency issuance. For the purposes of this paper, however, a description of China's dual-track approach to industrial transformation is useful in

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<sup>1</sup> Such measures include: high levels of tariffs and non tariff barriers, public ownership of large segments of banking and industry, export subsidies, domestic-content requirements, patent and copyright infringements, and restrictions on capital flows (such as foreign direct investment).

showing whether there are possible ‘agents’ for democratization in China.

Although the Chinese government still retains about 38 percent of the country’s GDP (Pei, 2006), China’s early reform period saw the contracting out, leasing, selling, or closing of small and medium-sized SOEs, which typically produced labour-intensive, low technology goods (Nolan and Xiaoqiang, 1999). Thus, in the first 15 years of reform from 1979 to 1993, most new firms entering the Chinese market were neither private nor central government owned, but locally-owned rural township and village enterprises (TVEs) that evolved out of the agricultural commune system of the ‘Great Leap Forward’ in 1958. In the early 1990s, growth was led by increasing industrial output by TVEs using local agricultural surpluses to invest in manufacturing in small-scale, low-technology and labour-intensive production. Although TVEs further underwent privatization in the late-1990s, they are noted as having played a key role in aligning the interests of local governments with economic reforms, as they began to see it in their own interest to invest in public goods for the local economy despite the lack of clearly defined property rights (Qian, 2003).

In the light of these processes, by the late-1990s, the share of industrial output accounted for by the central government roughly fell from a level of about 80 percent to less than 30 percent, while the share contributed by TVEs and other ‘non-state’ firms (private, foreign-owned, and joint ventures) had both doubled from 20 percent to 40 percent, and from about 0 percent to 20 percent, respectively (Perkins, 2001:255). Meanwhile, the value of goods being exported and produced in China is also of increasing technological content, with a greater share involved in sectors such as telecommunications equipment, electronics and computers, as well as other electrical equipment (Francis, Painchaud, Morin, 2005). This has led to the rise of dynamic non-state enterprises that are increasingly upgrading into more technologically demanding activities (Roberts and Rodrik, 2006). All in all, China appears to be pursuing dual-track industrial reforms by simultaneously maintaining the role of large SOEs in the economy, while encouraging entrepreneurial activity through the proliferation of science park incubators on the mainland. This approach, it is believed, will allow smaller dynamic firms to play a complementary role to flagship SOEs by exploiting small, but profitable and disruptive, technological niches that incumbent businesses largely avoid (Linden, 2004:3-4).

### 3.4. Wealth Inequality

While broad-based industrial transformation may be underway, this alone is no guarantee that reforms will create a growing constituency of democracy. This is due to the extent to which economic resources can be distributed so as to diversify economic wealth, while also consistently improving the quality of life of the public at large. So far, China's record on income disparity reveals contradictory evidence as to whether, as in East Asia, it can create the adequate conditions for democratic transitioning. As Chen noted,

On the eve of democratization in Taiwan and South Korea, the wide diffusion of the benefits of economic growth had significantly enlarged the middle classes and shrunk both the traditional working class and the underclass. This new class structure favoured democracy by: 1) moderating class antagonism and its attendant tendency toward political extremism; and 2) enabling the now very large middle class to picture itself as the likely overall winner under democratic conditions (Linden, 2004:56).

As is commonly known, indicators of wealth inequality in China have gradually risen from a Gini coefficient<sup>2</sup> of 0.29 in 1981, to 0.39 in 1995 (Shang, 2002), to about 0.48 in 2005 (*China Daily*, 2005). Furthermore, it is estimated that urban dwellers earn about four times more than their rural counterparts, which make up about two-thirds of the Chinese population (or 800 million).<sup>3</sup>

While the problem of income inequality appears acute, there are other indicators providing a more nuanced perspective. First, it should be noted that Gini estimates have not increased throughout the post-1978 period. As early reforms involved the agricultural sector, the Gini coefficient actually declined to a low of 0.25 in 1983, before steadily rising in subsequent years (Gelb, Jefferson and Singh, 1993). Although

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<sup>2</sup> The Gini coefficient is a widely used measure of income inequality: with a value of zero meaning completely identical per capita household incomes, while 1.0 represents maximum inequality, where the richest person has all the income (Martin Ravallion and Shaohua Chen, "Learning from Success: Understanding China's (uneven) progress against poverty", *Finance & Development*, (December), 2004, p. 17.

<sup>3</sup> James R. Keith, Prepared statement for, 'Major Internal Challenges Facing the Chinese Leadership', the US-China Economic and Security Review Commission (USCC) one hundred ninth congress, 1st session, (Washington: Bureau of East Asian and Pacific Affairs, U.S. Department of State: 2006), February 2-3, pp. 9-11.

this may seem inconsequential, the later rises in Gini coefficients perhaps reveal sequencing of reforms by Chinese authorities, with a return to agriculture policy changes in later stages of development. Second, real wages in Chinese manufacturing, between 1994 and 2002, have increased at an average rate of about 8 percent per year (Flassbeck, 2005:9). This is consistent with recent reports in April that Shenzhen economic zone (found along China's coast) raised monthly minimum wages by as much as 23 percent from Rmb 690 (\$86) to Rmb 800-850. These increases were affordable due to labour productivity increases that have grown in parallel, as firms have increasingly added value to their production (Mitchell, 2006). Third, national accounts data show that China's high saving rate (as percent of GDP) is as much from high enterprise and government saving, as from high household saving. As of 2000, enterprise saving actually surpassed household saving for the first time, as a result of higher profits and retained earnings, combined with relatively stable excess saving over investment in households, and government transfers (Kujis, 2005). From these figures, China's financial system has perhaps been more effective in channelling financial resources to enterprise investment, than normally believed. As Kujis notes,

In this context, a judgement on the economic efficiency of China's financial system would be more favourable than the more common judgement on financial efficiency (Kujis, 2005:8).

Fourth, as part of the recently promulgated 11<sup>th</sup> five-year plan (2006-2010), central leaders announced the 'New Socialist Countryside' initiative that is aimed to improve conditions in rural areas by modernizing agricultural production, building rural infrastructure, removing ancient-times agricultural taxes, and increasing government transfers for social services such as education and health (*The Economist*, 2006). This initiative is the third of a slew of regional 'poor-area development programs' aimed to promote and rebalance China's growth in the rural countryside. Other such initiatives included: the Western Development program (*The Economist*, 2005) and the Northeast Rejuvenation program (World Bank, 2006). Although the outcomes of these various programs are not immediately evident, they hint at a concerted plan and recognition by central leaders that these areas will not be left too far behind.

#### **4. CONCLUSION**

Is the Chinese political system unravelling into crony capitalism? Or is it emerging as a coherent development state, as was the case of much

of East Asia? To frame the question another way, would it be better to characterize China's development according to Wolf's 'liberal realism' or Fukuyama's 'realistic Wilsonianism'? Regardless of how its experience is labelled, it is clear that most important to understanding its democratic development is, as Wolf put it, "above all, understanding what makes each society's evolution unique" (Wolf, 2006:13).

As discussed earlier, China's chosen path of development has been unique, while also borrowing from the strategies of other countries, particularly East Asia. However, in forging its own path, it has made use of an unorthodox package of policies anathema to many international and leading policy analysts. Such a predicament leads to contradictory policy prescriptions that need to be reconciled. For instance, seemingly counter intuitively, Yang contends, "Government reform and defacto privatization have been accomplished not by dismantling state power, but by reconstituting it (Yang, 2003:47)." Moreover, as opposed to the conventional wisdom of the smaller, less intrusive state, it is state capacity that should be emphasized. As Bruton explained, "That a government makes mistakes is inevitable. That it does not learn from those mistakes means that it needs to find ways to learn. Government learning, not government minimizing, is the object" (Bruton, 1998).

However, it is often argued that China's 'lessons learned', as well as those of East Asia, are not relevant for other developing countries that lack the institutional capabilities to design and effectively implement their own unique development strategies (World Bank, 1993:26). This argument is somewhat misleading, for three reasons: first, it is not the context-specific policy lessons that are applicable, but broader process-related dynamics (Brynen, 2005); second, while national development strategies may require a fair amount of institutional capacity, so do more market-oriented models as espoused by much of the international community. As such, if the level of bureaucratic competence required for purely market-oriented strategies could be attained, "the additional implied by other models would be institutionally within reach (Evans, 1998)."; third, national strategies as adopted by China and in East Asia belong as part of a historical pattern of such strategies as pursued, in an earlier time period, by today's leading industrialized nations. As Wade (2003) explained,

Almost all now-developed countries went through stages of protectionist policy before capabilities of their firms reached the point where a policy of (more or less) free trade was declared to be in the national interest. Britain was protectionist when it was trying to catch up with Holland. Germany was protectionist when it was trying to



catch up with Britain. The US was protectionist when it was trying to catch up with Britain and Germany. Japan was protectionist for most of the twentieth century right up to the 1970s Korea and Taiwan to the 1990s. And none of them came close to matching our criteria for 'democracy' till the late stages of their catch-ups.

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