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Paradoxes of Prosperity in China's New Capitalism

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Abstract: This article gives a broad characterization of China's political economy, as well as specific aspects of its socio-economic instabilities. With a focus on China's export-oriented industry sectors, concepts from comparative and international political economy are applied to show how the Chinese economy can be understood as a variegated form of state-permeated capitalism that at the same time is deeply integrated into world economic processes. The article goes on to portray the socio-economic dynamics, as well as the instabilities of China's new capitalism, that are at the root of the state leadership's attempts to turn away from a one-sided model of export and investment-driven growth. Thereby, a number of obstacles are revealed for the "rebalancing" of the economy: a continued dependence on exports, a lack of domestic consumer demand which impedes a significant "social" upgrading, the ongoing low-wage model for which there is no end in sight, the limits of the state's steering capacity and the weaknesses of its fragmented, competition-driven structure.

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Introduction

Chinese economic development, since the reform period began at the end of the 1970s, has outperformed every other long economic upturn in the history of modernity. While some of the largest OECD economies still struggle with the effects of the global slump, the People's Republic of China (PRC) appears to be developing mature and endogenous sources of technological innovation and to be no longer acting solely as the "workshop of the world" (World Bank 2012). Yet, in contradistinction to such a stylized fact is another China, one that is characterized by specific destabilization dynamics which require just as much explanation as the tremendous spurts of growth within the economy.

As part of a topical edition of JCCA, this article aims to explore several conceptual and empirical aspects of China's emergent capitalism. It thus offers an overview of China's political economy, focusing especially on its export-oriented industrial sectors, as well as some of its instabilities. First, it asks what kind of socio-economic order has emerged in the PRC. In the previous decade, "capitalism" has frequently been used when referring to China. This is often equated with market expansion, the rise of private companies and global firms operating in mainland China, but this leaves several other phenomena unanswered: what about the role of the "communist" state and the Chinese Communist Party (CCP)? Can Chinese state-owned firms be interpreted as "capitalist" actors? I apply concepts from comparative and international political economy to define capitalism in a broad sense that comprises not only markets but also extra-economic institutions and the embedding of individual national economies in worldwide economic structures. Thus, I show that the Chinese political economy can be understood as a variegated form of state-permeated capitalism that is at the same time deeply integrated into world economic processes. For this reason, it draws on the work of China scholars who have stressed the need to engage in cross-national comparison and thus have begun to study China as a new form of state or state-led capitalism (Chu 2010; Kennedy 2011; McNally 2007; Nee and Opper 2007; Redding and Witt 2007; ten Brink 2013).

As a consequence, when describing the transformation processes in China, my analysis differs from two common positions. One uses the dynamics of reform policies to underline the "capitalist-socialist" or "hybrid" character of the system (Sigley 2006; Wu 2005). Not unlike the official position of the Chinese leadership, they view the existence of a state-controlled "socialist market economy" and the dominant role of the CCP as signs that the PRC contains the relatively intact foundations of a non-capitalist society. The other opposing position sees the growing importance of private firms as an expression of a restructuring in China that has liberal traits similar to those of processes in other capitalist systems (Hart-Landsberg and Burkett 2006; Wilson 2007; Witt 2010).

Second, in comparison to more optimistic analyses and projections (Fu 2012; World Bank 2012), but short of overtly pessimistic outlooks (Pei 2006), the article highlights several socio-economic instabilities that are apparent from China's unique triple facets of being "globally integrated", "state-led", and "internally variegated". In this regard, particular attention is paid to the role of the state and the CCP leadership which, up until now, has weathered the global crises relatively well. Nonetheless, even before the outbreak of the global slump in 2008, the Chinese power elite in Beijing was eager to turn away from the "export-oriented model" and was willing to create a more domestically centred, socially acceptable model based on internal consumption, rising incomes, and environmental sustainability. Since then, the leadership has further emphasized the need for strengthening the domestic market. The article thus asks whether the idea of "rebalancing" China's new capitalism is a realistic goal.

In the first section, I provide a conceptualization of capitalism (or at least a working definition) and a notion of an internationally variegated capitalist world system which, when applied to China, shows that the country has indeed developed the basic institutions and interest alignments characteristic of capitalist societies, although they still make for a specific type of capitalism. After outlining three key features of China's political economy: deep integration into the world economy, distinct forms of (unequal) labour relations and a competition-driven system of multi-level governance, I describe in the following section how these three dimensions foster some of the socio-economic dynamics, as well as the instabilities that the central government has tried to come to grips with in recent years. I show that China's deep integration into world economic and East Asian dynamics, which made the success of China's export- and investment-driven model possible in the first place, has produced several problematic effects. These include a huge export dependence that is matched by the persistence of the low-wage model and lack of worker representation. Moreover, a chronic excess of supply and insufficient domestic consumer demand can be identified (note that in this article, I only focus on end consumers and distributional aspects of domestic demand. The picture would look rather different when domestic demand from companies and state institutions for products consumed as production inputs, intermediate consumption, would be included). This section ends by asking if and in which ways the central government can cope with the challenges of rebalancing the economy. To illustrate the challenges of the state's steering capacities and the weaknesses of its fragmented, competition-driven structure, the effects of both the domestic stimulus package and the functioning of the financial system are discussed.

China and Capitalism

Within China there are several characteristic attributes of capitalist "socialization" that take a peculiar form. These include:

- the systemic requirement for extended accumulation and innovation for the sake of profit maximization that contrasts to traditionalist, subsistence-oriented economies;
- the development of production based on pragmatic motives as well as the crises-prone mechanisms of economic and social innovation typical of capitalist systems;
- the dependence of economic actors on "extra-economic" institutions, for instance the state;
- the increasing role of competition in destabilizing institutions and social relations, and the fundamental tension between market expansion and social cohesion.

To be able to grasp the capitalist nature of China, as well as to define its unique characteristics, in what follows I provide an extended concept of capitalism (a much more extended conceptual apparatus can be found in: ten Brink 2013). I refer to perspectives in comparative and international political economy, regulation theory and economic sociology (Boyer 2005; Coates 2000; Jessop and Sum 2006; Streeck 2010). These approaches either extend or criticize both prevailing conceptualizations of capitalism, as well as the "Varieties of Capitalism" (VoC) school (Hall and Soskice 2001). A direct application of these "narrow" models of capitalism to the Chinese region has proven to be unsatisfactory (Ahrens and Jünemann 2006). This is due not only to them being confined to economic models in developed economies, especially to Anglo-Saxon style market capitalism and coordinated market economies in continental

Europe and Japan, but also to several other shortfalls that have been identified with these concepts:

- Narrow theories of capitalism tend to equate "capitalism" with a "market economy", so that "the very problems of *distribution* and *exploitation* that are centrally emphasized when a socioeconomic formation is referred to as capitalist are thereby submerged in, or redefined as, problems of efficient production" (Streeck 2010: 27).
- They neglect the role of the state, as well as the conflict and power relations that occur in capitalist systems, in favour of cooperation and coordination.
- They incline towards methodological nationalism; that is, they concentrate on national models of capitalism in which the boundaries of states define the scope of the different models.

Since this focus on national models conflicts with the logic of the space of flows associated with the world economy, in recent years there have been moves towards a concept of an internationally variegated capitalist world system (Jessop 2009; Streeck 2010). It starts with the assumption that, although capitalism comes to operate in very different historical circumstances and institutional frameworks, the world economy seems to be able to impose its general "imperatives" or driving forces, if not to the same degree, on all of its components, despite their different historical modes of regulation.

> There is no need for a theory of global capitalism to deny the possibility of diversity, along national or regional lines, just as current theories of national capitalism sometimes allow for internal variation between regimes and practices by subnational territories or economic sectors. In recent years, the concept of "variegated capitalism" […] has been put forward in explicit criticism of the VoC approach, not in an attempt to deny differences, but in order to place them in a context of economic and political interdependence (Streeck 2010: 38–39).

The internationally variegated capitalist world system is made up of a network of capitalisms, which albeit differentiated along national and regional lines are linked and undergoing permanent processes of differentiation and adaptation. Since the 1970s, this holds true more than ever: globalization has extended and deepened world market integration, although it has not brought about the processes of convergence anticipated by neoclassical economists.

China's political economy should thus be analysed against the "external" background of liberal globalization and transnationalization of production, but without denying its "internal" specifics.

Globally Integrated, Internally Variegated: State-permeated Capitalism, Chinese Style

My analysis sees the People's Republic of China as having developed a distinct form of capitalism. As mentioned, it draws on the work of those scholars who study China as a new form of state-led capitalism. In accordance with the previous section, three dimensions of capitalism in China can now be depicted that, as the second part of the article shows, also reveal several paradoxes of prosperity.

First, the dynamics of the Chinese economy can be properly understood only by referring to the embedding of individual national economies in worldwide economic structures that then place enormous constraints on their freedom to act. As such, China has been able to benefit heavily from its regional and global integration in the past 30 years. A new international division of labour and a restructuring of value chains towards East Asia has transformed mainland China into a strategic business location. Since the 1980s, Chinese manufacturing bases have been integrated into regional and, subsequently, global chains of trade and consumption. Alongside vibrant inner-regional East Asian economic processes, the networks of overseas Chinese played a considerable role in the industrialization of China. To some extent, the capital of overseas Chinese has eased the way for foreign investments (FDI) since the 1990s (Breslin 2007; Yeung 2004; Zweig and Chen 2007).

From the 1980s onwards, internal requirements and external dynamics linked up in a way that guaranteed, comparatively, the largest successes in GDP growth globally. An increasing number of industrial areas then served as production platforms for final goods assembled from imported capital-intensive primary products. In addition, the national economy benefitted from "lucky" coincidences related to an increasing over-accumulation of capital in the old centres of capitalism, leading to intensified relocations of capital towards China (Hung 2008). High amounts of capital inflows from East Asia, the U.S. and Europe fed high productivity growth and helped to modernize production infrastructures, for instance in the automobile and IT sectors, goals that other emerging markets could not achieve. Moreover, the old centres acted as the ultimate buyers of Chinese exports. Resembling previous phases of capitalist late-development, the Chinese catch-up economy was able to grow at the expense of other underdeveloped nations and could at the same time benefit from progress in the dominant economies, through the transfer of technological and organizational know how or, against the background of growth slowdown in the old centres, by foreign direct investment (Harvey 2010). Yet Chinese "exportism", that is its heavy dependence on exports based on low wages and hence world economic developments, also embodies a crises-prone foundation to the growth model, as the effects of the global slump have indicated (Hung 2009).

Second, another dimension of capitalism in China is concerned with the "problems of distribution and exploitation" already addressed, that is hierarchical divisions of labour and distinct labour systems. For decades, several hundred millions of low-paid people, often migrant workers in dire need of jobs, formed the backbone of Chinese economic development. The ensuing low labour costs acted as "pull factors" for foreign direct investment. Social stratification and in particular the vertical class polarization between those with and without wealth and the social structural conflict this created is another essential condition of China's capitalist dynamics.

Yet, in the PRC, the remodelling of (urban) labour relations is generally based on fragmented regulation, as is evident from an inadequate implementation of legal norms and a lack of effective institutions to create a balance between labour and (state) capital. The various types of production regimes, a massive segmentation and flexibilization of employment, low base wages, long working hours that are often in violation of existing legal standards and a lack of trade union mobilization capacity bring about a range of socio-political contradictions.

Third, contrary to narrow economic theories, capitalist dynamics and competitive relationships between companies in China have to be analyzed against the broader background of "extra-economic" institutions, primarily the state as a relatively autonomous political agency with a monopoly of power and coercion. Two characteristics of the state within a capitalist system generally stand out. On the one hand, the state attempts to guarantee a number of social, legal, and infrastructural integrative and adaptive functions which make it possible to sustain a capitalist economy in the first place (for instance, contractual relationships, infrastructure and education). On the other hand, "economics" and "politics" in capitalist systems form a network of structural interdependencies (Block 1994). Not only are companies dependent on their respective state authorities, the existence of the state is also contingent on successful dealings within the national economy. National political mechanisms are structurally dependent on successful accumulation within national borders and this can, for instance, reveal itself by a stake in retaining the tax base.

Is the Chinese party-state supportive of capitalism? The answer must be affirmative. Political institutions in China provide the basic framework for accumulation: an administrative structure that upholds order (administration, jurisdiction), an economic infrastructure (such as transport and communications) and other socio-political arrangements (for instance in labour relations). Furthermore, government officials or state managers, especially at subnational levels, have developed real entrepreneurial capabilities. A dynamic state dirigisme has come to play a leading role, combining the merits of "scientific planning" with individual "entrepreneurial creativity", all accompanied by a huge faith in progress that is reminiscent of the heydays of modernity.

Unquestionably, planning elements still exist, albeit in a modified form. For example, developments in the financial sector represent an argument against a simple adaptation of a liberal market economy because of the government's strategic role there; and party-state control over companies has survived in a different guise, as in the holding of shares in listed companies. But this must not be equated with a simple hybrid that combines "capitalist" and "socialist" principles. Such would be possible only by defining these terms quite narrowly and viewing socialism, as the current Chinese leadership does, as pursuing economic growth by any means deemed necessary and capitalism as a mere synonym for markets. In fact, as China illustrates in great detail, state intervention, state ownership, and communist party control need not exclude capitalist dynamics.

State ownership can represent one form of particularistic control in the exercise of economic and political power under capitalism, for example in the guise of a profit-oriented, listed state-owned enterprise (SOE), which is exposed to almost the same pressures as private enterprises and/ or displays similar conditions for workers. In this case, essence rather than form makes the difference. A key issue is, therefore, not so much how the party-state is driven back by marketization tendencies, but more how the party-state has contributed to the emergence of a new form of capitalism and how it will continue to do so. This also holds true for direct CCP influence: It is

> not necessarily true that the Party will influence decisions that contravene the efforts of governance reform; as pointed out by John Thornton (who among many hats, is board member of one of China's largest telecom firms, China Netcom), "The chairman of Netcom likes to say that he does not see a contradiction between Party influence and the protection of (non-party) minority shareholders because the goals of the two are the same – namely, Netcom's success as a business" (Pearson 2011: 30).

Regarding the political system, the PRC features a remarkable combination of central and decentralized political power structures that constitute a system of multi-level governance. Economic development concepts are continuously shaped by central state and Party bodies, though local interpretations make a difference. Indeed, this encouraged local economic dynamics whereby subnational governments compete to stimulate economic growth in their territories by directly supervising and intervening in companies. The resultant development boosted both inter-regional competition (as early evidence, see Oi 1995; Montinola, Qian, and Weingast 1995) and the problematic side-effects of a political disorder affecting governance.

All in all, the authoritarian regime has become a component that is conducive to China's new capitalism. It has learned to plan with and for markets and proves to be enormously flexible and capable of acting. Far from undermining each other, the interdependencies between Party, state(s) and private, semi-private and state entrepreneurs have been identified as having created both strong alliances and, to a certain extent, social stability (Dickson 2007; Heilmann and Perry 2011; ten Brink 2012; Zheng 2010).

The three different dimensions of Chinese capitalism can serve as a means to identify specific institutional arrangements that have emerged in the PRC. Since state institutions play a considerable role in all of these and because the overall concept of development can be depicted as "state-centric", for example, through the idea of political "macro-control" (宏观调控, *hongguan tiaokong*) and of "making plans for markets" (Heilmann 2011), we may generally define the nature of China's political economy as a competition-driven form of state capitalism. To be more precise, we may highlight its variegated form, since China is both integrated into global capitalism in a myriad ways and at the same time internally fragmented and heterogeneous.

Does this mean that the Chinese state-led form of capitalism is immune to destabilization and crises? Hardly. Based on the already mentioned dimensions of China's integration into global capitalism, its distinct forms of labour relations and its competition-driven system of multi-level governance, I discuss in the following the specific risks and instabilities associated with the Chinese path of growth (and hint at certain counter-tendencies also, by pointing at different literatures).

Rebalancing the Economy? Socio-economic Challenges and Instabilities in China Amidst High Growth Rates

Due to demand shortfalls in the export sector during the global slump, as well as global economic imbalances and growing worker unrest, the Hu-Wen government in recent years has emphasized the need to rebalance the economy. Former premier Wen Jiabao, in his introduction to the twelfth Five-Year Plan (2011–2015), underlined this objective:

> Expanding domestic demand is a long-term strategic principle and basic standpoint of China's economic development, as well as a fundamental means and an internal requirement for promoting balanced economic development. […] We will actively boost consumer demand. We will continue to increase government spending used to help expand consumption, and increase subsidies to low-income urban residents and farmers (Wen 2011: 19).

Specific objectives in the field of welfare that are mentioned include guarantees for a yearly increase in the minimum wage by 13 per cent. Statements from the Ministry of Human Resources and Social Security go even further: they promised a yearly increase of the average wage by 15 per cent in 2011. In the language of regulation theory, China is striving for a transition from an "extensive" to an "intensive" regime of accumulation, in which a capital-labour compromise ensures shared productivity gains (Boyer 2005; Jessop and Sum 2006).

In the West, commentators such as Stephen Roach, who was chair of Morgan Stanley Asia until 2010, read this as signs that "the 12th Five-Year Plan is likely to spark the greatest consumption story in modern history" (Roach 2011). Is this a realistic outlook? In the following, in parallel to the three dimensions of China's political economy discussed in the first section, I expose some of the challenges associated with an export- and investment-dependent growth model. I do this by tracing the trajectories of China's integration into the world economy, as well as examining the growth factors that are neither directly dependent on the Chinese leadership nor open to easy influence. Subsequently, I analyze causes for a lack of domestic end consumer demand and the limits of the state's steering capacity on the road to "rebalancing" the economy.

All that Glitters is Not Gold: The Persistence of the Export-oriented Low-wage Regime

Prior to the global slump, the high growth rates of the Chinese national economy were by a large degree due to an increase in exports, which rose by approximately 25 per cent annually.

> Despite the high import content of exports, […] one-third of growth of income in China in the years before the outbreak of the global crisis is estimated here to have been due to exports (Akyüz 2011: 3; cf. Zhu and Kotz 2011). (Note that there is a debate on this issue among econometricians who come to different conclusions; cf. Anderson 2007.)

The end of the consumer boom in the U.S. and other OECD countries was therefore bound to trigger a crisis in those Chinese sectors geared to the consumer market. The severe decline in Chinese foreign trade in the second half of 2008 represented the most important channel through which the slump was transmitted. In 2009, foreign trade fell by 20 per cent. Accordingly, China's GDP growth decreased significantly, temporarily to around 6 per cent. This trend would have continued had the huge government stimulus packages, which in 2009 enabled an 8.7 per cent annual increase in GDP, not given fresh impetus to the economy. Nevertheless, the number of layoffs in electronics, textiles and other export industries was huge. Additionally, the financial meltdown and the credit crunch curbed potential for FDI flows.

To date, export dependence has not diminished. It was due to an increase in exports, in combination with the stimulus package plus an enormous extension of credit, that the economy was helped to again achieve the highest global growth rate for large economies (+10.3 per cent in 2010 and +9.2 per cent in 2011).

Against this background, the idea of rebalancing the economy and of turning away from the "export-led model" has to overcome several obstacles. Firstly, there remains the question of implementation: Even if government proclamations demonstrate determination for a change in the growth pattern, there is no guarantee that these policies can be implemented immediately and at every relevant administrative level. The competition-driven system of multi-level governance is hindering the power and effectiveness of the central state, as are the range of conflicting regional interests and those occurring at different levels of the state.

Secondly, there is the question of central government endurance. During the crises, central government took measures that do not go hand in hand with ideas on strengthening domestic demand:

> In January 2009 [the Ministry of Human Resources and Social Security issued a statement] urging employers to avoid or reduce mass layoffs by reducing wage costs, placing workers on leave or creating "flexible working arrangements". In February the State Council advised local governments to cut employment costs temporarily by reducing or suspending social security premiums (de Haan 2010: 75).

Another response to the recession has been an "effort to increase incentives for export, such as increasing the tax rebate to exporters" (Zhu and Kotz 2011: 26).

These policies could still be legitimized as short-run emergency measures. Nonetheless, as a third point, they are influenced by other processes, which likewise are detrimental to domestic demand growth. Sections within the power elite saw the crises as an opportunity to modernize the economy towards more "efficiency" (Huang and Chen 2010). In this spirit, liberal Chinese economists and finance sector lobbies pressed for an expansion of market mechanisms and technological upgrading (Wu and Fan 2010: 270–275). But whether technological upgrading and interrelated higher qualification requirements will eventually lead to higher wages on a mass scale remains to be seen. Current research in the Pearl River Delta and Yangzi River Delta reveals the persistence of the labour-intensive, low-wage regime even in high-tech industrial sectors. The IT industry is a case in point where the workforce is generally polarized between highly educated and well-paid technicians, on the one hand, and a mass of low paid and largely unskilled migrant workers, on the other (Lüthje, Luo, and Zhang 2013; Yu 2010). At the same time, an increase in labour productivity may increase unemployment.

Generally speaking, it is doubtful whether exports of high value-added goods alone can provide a viable alternative to the growth contribution of mass consumer goods production. If anything, there will be a slow transition in which the Chinese economy emancipates itself from its role as the "workshop of the world", but in which the Chinese economy will still rely to a large extent, and over the medium term, on "competitive" wage levels. This slow transition may also proceed regarding the idea that the labour surplus is about to come to an end ("Lewisian turning point"), which in turn would drive an increase in wages and hence domestic demand (Cai 2008; World Bank 2012: 303). Taking the economy as a whole, however, although there actually exist labour shortages in industrial sectors especially in coastal provinces,

> [it] may take another decade for the share of labour in agriculture to fall to 25%. In Japan, it was only when farming employment fell to this level that the wages of people moving from farms to cities started to take off rather than remaining at a subsistence level (Herd, Koen, and Reutersward 2010: 14).

A fourth point identifies those domestic and foreign enterprises that are interested in the continuation of the low-wage model as being a major barrier to rebalancing the economy. Foreign multinationals and their contract manufacturers are currently shifting sections of their production into northern, central, and western Chinese provinces in order to benefit from competitive advantages (for instance, low wages and favourable taxes). This applies on a grand scale to the IT industry which is being wooed by the local governments of interior regions. On similar grounds, production locations are being relocated to under-developed areas within the coastal provinces (Huang and Chen 2010: 76ff).

It comes as no surprise that foreign and domestic firms capitalize on the variegated structure of Chinese capitalism that is fostered by its uneven development. Even in the most advanced coastal areas, foreign investors (and their associations), for example from Hong Kong, spearhead pro-employer policies and quite effectively oppose rising wages (Huang and Chen 2010). German analysts are provocative in suggesting that a significant rise in wages would effectively contradict one, if not the most, important comparative advantage of the economy (Deutsche Bank 2010: 6). The fact that one third of industrial output in China is in fact produced by foreign-funded private enterprises reveals that the central government cannot, despite all its rhetoric, easily evade these pressures. Deep integration into global production networks and value chains constitutes a great deal of world market dependence. Moreover, since Chinese companies often play an inferior part in global production networks (Breslin 2007: 123–130, 142–150), the majority of profits are attained by multinationals. At the same time, they are less subject to the dictates of the Chinese state. In addition to this, even CCP appointed executives in SOEs tend not to act according to new regulations that aim at extracting a larger share of state sector dividends into the state treasury. Although

SOEs are obliged to pay higher taxes, thus potentially providing a rising fiscal base to shore up social spending, the responsible authorities, for instance the State Asset Supervision and Administration Commission (SASAC), have difficulty in forcing "powerful state enterprises to hand over the required dividend payments" (McNally 2011: 16). "Growth fetishism" seems not yet to have dissipated.

Lack of Domestic Consumer Demand and the Containment of Worker Representation

It was argued before that China produces its own structural impediments for a transition from a predominantly export-oriented, low-wage, neo-Taylorist model to a domestically centred, socially acceptable model. The last section reaffirmed this. In the following, I show that a trend towards insufficient domestic demand is the counterpart to export dependence. The share of private consumption in GDP has receded from approximately 50 per cent to 34 per cent since the late 1990s (ADB 2011: 119; He and Kuijs 2007; for a more optimistic analysis, at least in the medium term, see World Bank 2012: 9, 48–54, 84–87). Closely related to this trend is the escalation in the already high investment rates of up to 40 per cent of GDP post 2000 and to more than 50 per cent since 2008. It is estimated that investment efforts in 2009 amounted to two thirds of growth. On the basis of a weak increase in domestic consumer demand especially by workers and peasants, this has resulted in rising excess capacities that feed into a sustained export orientation that, in turn, hinders efforts at rebalancing.

Although the domestic market is huge and average income has risen over the past decade, in effect, lack of demand by workers and peasants represents a constitutive part of China's new capitalism, based on low wages, underdeveloped social welfare systems and, also due to the maintenance of the *hukou* (户口) system, extreme inequalities. Average private consumption lies below the figures of all other large economies despite numerous reports on bumper sales in China of, for example cars (World Bank 2012: 13, 83–84). Additionally, up until now, the "one glaring shortcoming was that reformers had been unable to rebuild the system of public welfare that had collapsed during the reform process" (Naughton 2011: 316).

To achieve rebalancing with respect to social distribution and decent living conditions, wages would have to rise significantly and social security would have to expand massively. But the promise of a "harmonization" of labour relations lacks a central basis: the power of trade unions to represent and to mobilize. In contrast to employers who control key economic resources and frequently possess political influence, those dependent on earning a wage in the "socialist" People's Republic of China are rather powerless, since they lack independent representation (Chan 2001; Lee 2007).

Even when the largely CCP controlled All China Federation of Trade Unions (ACFTU) and its subdivisions are present at the shop floor level, they act mainly as intermediaries between state, capital and labour, and as organizers of leisure activities (Blecher 2008; Friedman and Lee 2010). In many sectors of industry, basic wages are currently only 50 per cent of total wages. The payment of overtime and bonuses to supplement wages are evidence of the weak negotiating position of wage-earners. Hierarchical wage systems, competition between workers, the lack of influence concerning management policies, company restructuring, production relocations and other factors result in a high degree of social insecurity. Collective bargaining over wages and working conditions are as rare as sectoral wage agreements.

> [G]ranting workers the *collective* right of freedom of association is one measure that the central government appears constitutionally opposed to. The consequence is that higher levels of the state are in a bind, where they are unwilling to do the thing that would allow for their laws to be fully implemented (Friedman and Lee 2010: 530).

Furthermore, the opening of markets has led to a differentiation in production regimes with their specific features of ownership, management techniques, wage systems, and employment. These processes of segmentation contradict efforts to regulate the labour system "from above" (Lüthje 2010).

Against this backdrop, worker unrest has increased in recent years (*China Labour Bulletin* 2011). The working population, who largely exist outside systems of consultation, are nevertheless influential through their own initiatives. Second-generation migrant workers are especially articulate in making social demands. Collective forms of resistance have emerged that go beyond the remedies allowed for by the state in the Labour Contract Law of 2008. In early summer of 2010, a widespread series of strikes took place (Butollo and ten Brink 2012; Chan 2011). In June 2011, China was again rocked by social protests and street rioting that arose because of inflation.

These protests represent the tip of an iceberg of growing social demands and claims for decent working conditions (especially by migrant workers) that could, one might argue, pave the way for a rise in domestic demand. Forces for reform do exist in the ACFTU (for example, in Guangdong province). They supported the 2010 strike and strive for more independence and a strengthening of worker representation through trade unions. Similarly, a small number of Chinese experts are calling for reforms to the system of wage-setting (Lüthje 2010). Despite this, many power elites remain concerned about the protests. The central government's verbal assurances on labour and social policy will, it is feared, transmute into all too "unrealistic" claims by workers.

The one factor that is more capable than anything else of triggering "social upgrading" is therefore being contained, and a profound reform of the trade unions is being delayed (Chan 2011). Admittedly, the political decision-makers are hardly confronting the protests with direct repression and prefer to be seen as being open to compromise. To curb social antagonisms and to acquire an effective regulation of labour relations, a law has been drafted in Guangdong province that for the first time institutionalizes collective wage bargaining; its adoption continues to be blocked, however, not least due to pressure from investor groups in Hong Kong.

All in all, in the field of labour relations, the declaration of a course towards domestic demand-orientation proves to be half-hearted. In the face of particularistic interests from entrepreneurs, the state occasionally assumes the role of a balancing element. But this corresponds primarily to a fundamental "responsibility" of states in capitalist societies and should not be misinterpreted as a relic of "socialism" or as a consequence of concerned politicians placing social equality above everything else. Nonetheless, it remains to be seen whether an upsurge in workers' struggles may indeed drive a significant increase in wages, a variable that should get more attention in future research (Friedman and Lee 2010).

Limits of Political Steering Capacities?

One of the success factors attributed to China's phenomenal growth, as introduced in the first section of the article, is that inter-regional competition under the guidance of the central state provides an overarching institutional architecture that accommodates competition (Heilmann and Perry 2011). Yet an all-embracing controlling power is not detectable in China's state-permeated capitalism. Internal competition between subnational bodies and exhaustive state interventions not only foster dynamic economic developments, trends towards over-accumulation are also observable, that is over-investment resulting from internal competition between locations. This cannot be easily eradicated by central government bodies (Naughton 2010b).

The Yangzi River Delta stands out as an exemplary case. The different administrative jurisdictions that are vying with each other to attract (foreign) investors, for example: the government of Shanghai, the provincial governments of Zhejiang and Jiangsu and several other city governments, produce a lack of coordination and regional integration, resulting in predatory competition and duplicated development (Yu 2010: 94, 104ff). Furthermore, the huge number of political decision-making centres and the different levels of development within the country lead to competing political interests. It is no secret that different factions exist within the Chinese power elite. The prevailing "populist" current puts more emphasis on the necessity of social harmony that is centrally steered, while the so-called "elitist" coalition focuses more on economic efficiency, coastal development and "trickle-down" effects (de Haan 2010: 91). The coastal provinces, often dominated by the elitist coalition, are currently imposing such an influence, and a strong central government interested in "rebalancing" can only partially resist these pressures. It remains uncertain whether the new leadership will enforce a shift of power in favour of the rebalancing efforts.

For reasons already stated, the central government cannot often impose itself on a national scale. This also applies to central governmental bodies themselves, albeit to a lesser extent. Individual ministries or commissions have a certain autonomy in decision-making and there exists room for interpretation with respect to new regulations. The National Development and Reform Commission (NDRC), for instance, emphasizes the primacy of technological upgrading (NDRC 2011). By contrast, the Ministry of Human Resources and Social Security stresses the social components of economic restructuring. Although this might be intended as a thorough division of labour, one can observe a shift in intra-state weighting in favour of the NDRC and to the detriment of those political institutions responsible for social welfare.

Trapped between public promises of social justice and the enduring belief in low wages as a competitive advantage, governmental crisis management oscillates between social appeasement and world-market oriented restructuring. Thus, is it possible that even the mighty state leadership of China doesn't have sufficient steering capacity at its disposal to master the almost Herculean task of rebalancing China's economy?

A Rescue Package with Paradoxical Effects: The Great Economic Stimulus Program

In China's state-led form of capitalism, the central government controls not only important firms but also the biggest banks. This provides Beijing with significant economic manoeuvring room, as testified by the great economic stimulus set up after the global financial crises in 2008. Measured against GDP, this stimulus program represented the biggest rescue package in the world. However, although the government's stimulus program has effectively orchestrated a fast recovery, large parts of the program merely sustain the former growth model. The program was aimed at extending economic infrastructure (for example railway and highway networks) and upgrading technology in several strategic industries (Schmidt and Heilmann 2010). Local governments and state banks took an active part in this and local governments themselves compiled local developmental plans amounting to 1.8 trillion EUR in investment (Tong 2010: 59).

Even though investment has also been distributed to the poorer interior provinces, a reorientation towards a demand-based growth model has not been achieved:

> no more than 20 per cent of the stimulus package was in fact allocated to social spending; the large majority went to fixed-asset investment in sectors already plagued by overcapacity, such as steel and cement, and in the construction of the world's biggest high-speed rail system, whose profitability and utility are uncertain (Hung 2009: 22; cf. Schmidt and Heilmann 2010: 9–12).

As in Germany, incentives were available for the purchase of automobiles, and subventions were granted on household goods (Liang 2010: 67). Another 850 billion CNY (around 85 billion EUR) was added to an expenditure package primarily intended to strengthen the health care system and was seen as the core of ongoing social reforms. These measures are, however, insufficient to remedy weak domestic consumer demand over the short to medium term, even if some of it might be considered as stimulating consumption that could bear future "fruit". Housing may for instance have a long term effect. In the latest Five-Year Plan, the government promises the construction of 36 million homes which would become the largest public housing program in history

(McNally 2011: 19). There are similar expansion plans for old age provision.

But all in all, at least in the short run, these policies are probably less successful than generally assumed. The government has been banking on growth in the global economy, against the backdrop of ongoing export dependence that will make these investments affordable. This has not happened to the extent hoped for (as was shown, for example, by the Euro crises since 2011). The stimulus measures have thus accelerated over-investment which, for example, has resulted in large amounts of vacant office space, especially in second and third tier cities. Naughton has summed up the ramifications:

> The scale of resources committed to [different] programs will contribute to macroeconomic imbalances, […] making it more difficult for China to adopt a consumption-led economy. […] China has faced significant inflationary challenges since the fourth quarter of 2010, and the policy response has been slow. In part, this is because the government has so many ambitious projects on the table, and each objective has a set of beneficiaries who are deeply engaged in protecting their projects (Naughton 2011: 326; for a more optimistic outlook: Fu 2012).

The central government is struggling to contain the effects of an overheating economy because of the many large-scale projects, each being championed by special interests.

Macro-economic Steering Capacities and the Financial System

The global slump was weathered vastly better by the Chinese financial system than by "Western" monetary systems in liberal or coordinated market economies. The banking system therefore remained relatively viable in 2008 and 2009, and continued to play a key role in the central government's macro-economic management. In the wake of the crises, the People's Bank of China (PBOC) cut interest rates and directed credit into government projects. Whereas in Western economies private banks sometimes refused to lend money, the Chinese government could dictate not only that the major state banks should lend, but also the sectors to which they were to lend. In combination with the domestic stimulus, an explosive extension of credit ensued that bore the traces of debt-based overinvestment:

> Indeed, […] the exceedingly loose credit policy adopted by the PBOC has caused a surge in bank lending. Based on this view, the problem

> China faces is not the paucity of liquidity but the excessive supply and inefficient uses of credit, which might inundate the banks with NPLs [nonperforming loans] in the near future (Liang 2010: 63; cf. Walter and Howie 2011).

In 2010, the central state actually wanted to curb bank lending, but by autumn 2010, it had again risen by 15 per cent. Subsequently, the state again placed a limit on credit. Significant measures were taken to curtail bank lending by increasing capital adequacy ratios, and regulatory changes were made so that banks were no longer allowed to count subordinated debt as a source of capital. This had the effect of reducing lending and prompting banks to attempt to raise more equity capital. But evidently, the central government is finding it hard to impose a slow down, especially to the risky, competition-driven growth policies of subnational institutions. Hubei represents an extreme case of this phenomenon:

> [A]s of the beginning of 2010, there were already projects under construction with a total completion budget of 2.5 trillion RMB, which is almost exactly twice Hubei's 2009 GDP. Yet planners were beginning construction on another 2.7 trillion RMB worth of projects in 2010, and anticipating another 3.1 trillion in 2011 and 2012. Thus, they envisioned a total scale of construction by 2012 of a staggering 8.3 trillion RMB, equal to 648 percent of Hubei's 2009 GDP. […] In order to finance this expansion, bank finance is growing rapidly in Hubei. At the end of February 2010 lending was already up 6 percent from year-end 2009, and 33.8 percent over the same period a year ago (Naughton 2010a).

Consequently, in 2010 and 2011, the problems of local government debt came to the fore (Li and Lin 2011). Furthermore, an expansive monetary policy enables creditors to acquire not only land and property but also company stocks and other types of financial asset. The outcomes were speculative bubbles (Liang 2010: 67). It has so far not been possible to halt these tendencies, as is shown by an increase in investment in real estate sectors in 2011. Thus, the limits of state intervention and macroeconomic steering in volatile markets are also evident in this sector of the economy.

Moreover, regarding the social rebalancing efforts, inflation hinders an increase in domestic consumer demand because rising food prices tend to hurt poorer families more than wealthier ones. Last but not least, another factor causes powerful interest groups within the financial sector to be an obstacle to domestic demand-driven growth: the banking system is based on a high ratio of savings by the population (Ma and Yi 2010; Walter and Howie 2011: 80–81). In the event of a substantial expansion in domestic demand, savings may therefore drop and banks fail. Even a powerful state cannot guarantee banks indefinitely. It should therefore be of no surprise if the financial sector gets louder in its criticism of the government.

Nevertheless, monetary policy-makers are attempting to keep the problems of overheating and debt accumulation at bay. Whilst for instance, local government debt might become unsustainable and NPLs may indeed increase, the overall level of government debt still remains well within limits of sustainability, provided that the central government remains willing to use foreign reserves in order to finance the debt. This of course does little to help the overall rebalancing, but at least the likelihood of a financial crisis arising from the debt is reduced.

Conclusion

As this introductory article shows, in the People's Republic of China a new form of state-permeated yet competition-driven capitalism has emerged. In order to answer the question as to what kind of socio-economic order has emerged in China, concepts from comparative and international political economy to define capitalism in a broad sense have been employed. Although the Chinese economy is an integral part of a world economy that has been organized with neo-liberal precepts, this variegated form of state capitalist developmentalism retains a specific character. The increasing significance of market institutions is complemented by a high level of private/ public interdependencies and a high level of market regulation or, at the least, an attempt at regulation. A special form of capitalist modernization with a socialist "façade" is emerging from the extent of state interventionism, the state's assistance in business transactions and "state-centric" principles, as well as the role taken by the CCP. Rather than proving its "capitalist-socialist" or "hybrid" nature, China's variegated state capitalism reveals the reality of a complex set of competition-driven relationships: between "private" and "public" actors, and between a variety of vertical and horizontal decision-making structures that have assumed the form of fragmented multilevel governance. While the effects of marketization are widely evident, the profound impact of the party-state will be felt for a long time to come. Furthermore, the general success so far of China's response to the global crisis is seen by the power elites as justification of their economic system, as well as their strategy of market mechanisms and macro-economic instruments, and their many other industrial and administrative policies (Li 2011).

China's rise, thus, seems to demonstrate the advantages of state-permeated capitalism. Experience with the reform process seems to refute the theory that no "Marxist-Leninist" party has ever been able to organize a successful transition to a high technology production model. The same applies to the doubts about the ability of a bureaucratic governance system to cope with the flexibility of liberal market flows.

Nonetheless, the continuity of the Chinese economic "miracle" may be threatened by the crisis-prone processes of global capitalism and the tendency for internal crises to develop, as was shown by reference to China's international embedding, its labour system and governance capacities. While this article did not take into account a range of counter-tendencies, for instance, the further extension of welfare state benefits, leeway for further development of the investment-driven growth model in China's less developed provinces, the role of the middle class and of intermediate consumption in increasing demand, interest rate and exchange rate reforms, the relevance of foreign exchange reserves and some of the central government's capacities to cope with crisis, as was shown in the various crises since the 1980s, it has identified several socio-economic risks and challenges that are sometimes underappreciated in more optimistic analyses.

Firstly, the government faces the obstacles of an ongoing dependence on exports. There is:

> a problem if a very large country is growing at about 10 percent a year heavily dependent on exports when the markets to which it exports can be expected to grow at no more than 2–3 percent per year (Zhu and Kotz 2011: 24).

Turning away from a previously successful export- and investment-driven growth model, therefore, appears necessary. However, this will be difficult to achieve since the current growth model has produced its own structural impediments for a transition from a predominantly export-oriented, low-wage, neo-Taylorist model to a domestically centred, socially acceptable regime of accumulation. A continued dependence on exports in an unstable world economy, as well as powerful economic interests, may hamper a significant shift towards increasing internal demand especially by workers and peasants, higher wage levels and social security. Foreign and domestic enterprises are interested in maintaining the "low wage, low tax" model, with local governments being particularly eager to accommodate them.

Secondly, export-dependence on the one hand and lack of worker representation on the other are actually two sides of the same coin. These have been among the reasons for the shortcomings of many of the attempts to achieve a social "rebalancing" over the years. The redistributive measures of several state projects have proved to be half-hearted. Unfortunately, a continuation of the party-state's hesitancy towards reforming trade unionism and wage-setting can be expected in the twelfth Five-Year Plan. The main party-state's response to the growing disputes by labour, that in principle might stimulate domestic demand but at the same time represent independent motors of social change, is to forestall them.

Thirdly, further limits can be detected in the political steering capacity to rebalance the economy. To be sure, government strategies of industrial restructuring in the wake of the global downturn addressed some structural problems. But at the same time, the huge stimulus plans and the related re-organization of industrial assets also accelerated over-accumulation due to a massive bias towards fixed capital formation. The central government is only partially coping with the internal competition between locations and the associated high-risk growth and financial policies of subnational governments and private actors. Interest groups from local administrations, as well as from the financial sector, are thwarting efforts by the central government in Beijing. As a consequence, the problems of bad loans and over-investment have emerged that cannot easily be contained.

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Contents

Introduction

Research Articles