ASSESSING CHINA'S DEVELOPMENT IN THE GLOBAL ECONOMY: UNDERDEVELOPMENT, UNEVEN AND COMBINED DEVELOPMENT OR DEVELOPMENTAL CATCH-UP?

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Abstract

The purpose of this research is to examine the complex debates surrounding Chinese development. Although China has displayed impressive economic figures throughout its reform period, an argument remains as to whether the double-digit rates of growth reflect a broader phenomenon of development. Furthermore, the question of which development model China subscribes to is widely disputed within the scholarly literature. While there is clearly no lack of academic research concerning Chinese development, in this project I will propose a comparative analysis of the competing theoretical perspectives to understanding the Chinese political economy. The unresolved debates, which formed the key research questions, can be assessed in a more systematic and comprehensive manner using the proposed approach. This thesis therefore offers an analysis of the Chinese development through the lenses of four relevant theories of development: 1) Modernisation Theory, 2) Developmental State Theory, 3) Dependency Theory and 4) Theory of Uneven and Combined Development. Using these theories, this thesis seeks to answer two key questions derived from the complex debates surrounding Chinese development: 1) Can China catch up? And 2) What is the particular development model of China? As the primary type of data required to answer the research questions is macro-level data, document analysis has been employed where this thesis triangulates facts and figures derived from Chinese governmental bodies, international institutions as well as key scholarly literature. This research has also engaged extensively with the database of the World Bank for a comparison of Chinese development with developing and developed economies. The analysis concludes that substantial progress has been achieved by China on its path of catch-up with developed economies, with potential for complete developmental catch-up. The analysis also confirms that the developmental outcomes were achieved through the adoption of East Asian Development Model. In sum, the theoretical and empirical assessments of the two main key debates conclude that Chinese political economy is state-led modernisation and uneven and combined.

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ABBREVIATION

ACFTU	All China Federation of Trade Unions
BRICs	Brazil, Russia, India, China, and South Africa
CASS	Chinese Academy of Social Sciences
CIA	Central Intelligence Agency
CPC	Communist Party of China
CCP	Chinese Communist Party
CPEC	China-Pakistan Economic Corridor
ECLA	Economic Commission of Latin America
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
GNI	Gross National Income
G7	Group of Seven
HDI	Human Development Index
IHDI	Inequality Human Development Index
IMF	International Monetary Fund
KMT	Kuomintang
LURs	Land-User Rights

MITI	Ministry of International Trade and Industry
MFN	Most Favoured Nation
MFP	Multi-factor productivity
MNCs	Multinational companies
MOFCOM	Ministry of Commerce People's Republic of China
NBS	National Bureau of Statistics of China
NDRC	National Development and Reform Commission
NGOs	Non-governmental Organisations
OBOR	One Belt One Road
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
PRC	People's Republic of China
PwC	PricewaterhouseCoopers
RCA	Revealed Comparative Advantage
RMB	Renminbi
R&D	Research and Development
SEZs	Special Economic Zones
SOEs	State-owned enterprises
TFP	Total-factor productivity
TNCs	Transnational Companies

TVEs	Township-Village Enterprises
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
US	United States
USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WIPO	World Intellectual Property Organisation
WFOE	Wholly Foreign-Owned Enterprises
WTO	World Trade Organisation

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CHAPTER 1

INTRODUCTION

1.1 Introduction

After decades of virtually closed economy, under the leadership of reformist leader Deng Xiaoping, China in 1978 boldly took a step towards reform and opening to the outside world. The result of the reforms was nothing short of amazing with China scoring double-digit growth rates for many years. This impressive growth has attracted the interest of pundits and policy makers around the world to study about China and its development. Although there are abundant studies, but this thesis offers a new approach to understanding the unresolved debates surrounding Chinese political economy. Comparative analysis of the competing theoretical perspectives employed in this thesis looks at multi-dimensions of Chinese political economy, which could provide a refined understanding of Chinese development. Chapter 1 sets out the whole framework of the thesis, including the problem that leads to the research and the methods used to conduct the research. First, there is a discussion on the research problem that creates the need to address several key issues on Chinese development. This is followed by an overview of the historical background of China, the discussion on the evolution of the concept of development and the development definition used in this thesis. This is followed by exploring the research questions, research methodology and a short description of each chapters before proceeding with the conclusion.

1.2 Research problem

China's phenomenal economic performance in recent years has generated enormous scholarly discussion (Kiely, 2015; Panitch & Gindin, 2013; Huang, 2008; Kolo, 2007). While most scholars, but not all, agree that China has undergone impressive economic growth since its reform and opening-up in the late 1970s, they disagree on whether these achievements could be translated to China's catching up with developed countries. In general, there are two perspectives formulated differently on the issue of China's catch-up. The first perspective comes largely from economists, particularly those from Goldman Sachs who theorise a rise of emerging powers, notably China. These economists are optimistic that China will lead future global growth (Goldman Sachs, 2010, pp. 1-2). The growing influence of China is said to have perpetuated South-South trade which has allowed the South to 'decouple' from dependence on the West (Kiely, 2015, p. 2). Reports by international organisations notably the United Nations, henceforth UN (2015) and Organisation for Economic Co-operation and Development, henceforth OECD (2010) further supports the trend of income convergence between high-income nations and emerging countries.

PricewaterhouseCoopers (PwC) estimates that in 2050, China and India would be the world's two largest economies in terms of Gross Domestic Product (GDP) at Purchasing Power Parity (PPP) (PwC, 2017, p. 2). It is noteworthy that during the 2000s, China and India have grown 'three to four times the OECD average' (OECD, 2010, p. 4). Therefore, there is evidence for the optimistic view of China converging with the developed nations in the sense of catching up, specifically during and after the 2008 crisis. This is especially so when the estimated year that China could possibly overtake the US as the largest economy has fast forwarded 14 years to 2027. Such projections once again reinforced the optimism of China catching up and overtaking the US (O'Neill & Stupnytska, 2009, p. 23).

Another perspective found in Chinese development literature is that China's exceptional growth in the past does not automatically translate to catching up with the developed nations, specifically with the US (Panitch & Gindin, 2013; Lieberthal, 2010). Despite viewing China's growth optimistically, Panitch & Gindin (2013) maintain that the global capitalist order is still led by America. As industrial exports were mainly produced by foreign firms and joint ventures, some scholars argue that China's economic dominance has been overstated. They argue that China is still lagging in technology and remains in need of what the US can offer. Therefore, investments by US Multinational Companies (MNCs) such as Microsoft and IBM are more significant than the first wave of investments in China, which were labour-intensive in nature (Panitch & Gindin, 2013, p. 149). Most importantly, the model of rapid catch-up pursued by China has had profound environmental implications, which will need to be dealt with quite urgently. In a similar vein, Liebertal (2010) maintains that although the reforms led to impressive growth rates, the GDP per capita of China is still relatively low compared to the US. Furthermore, both Hardy & Budd (2012) and Liebertal (2010) argue that the US has long been leading the race in technological development, whereas China has just begun to make progress.

Another central debate that has stemmed from various discussion of Chinese development is the question of China's economic development model. The China model is commonly associated with East Asian Model, sometimes referred to as the Developmental State Model (Boltho & Weber, 2009; Arrighi, 2007). However, both Zhao (2010) and Huang (2008) are of the opinion that China is not following an East Asian Model although the Chinese model may appear similar. Huang (2008) argues that the essential difference between China Model and East Asian Model is the engine of growth. While growth in the East Asian Model adopted by Hong Kong and South Korea is driven by small private businesses, in China, the businesses that have boosted growth are dictated by the state, though they may not be State-owned enterprises (SOEs). Zhao (2010), however, differentiates the models by looking at the political aspects. In the reform process, East Asian model countries have adopted liberal democracy while China continues to maintain its single party rule, though it is

cautiously transforming to be more receptive to citizens' demands. The argument made by Zhao is contradicted by Boltho & Weber (2009), who question if Japan, Taiwan, and South Korea, which adopted the East Asian Model, can be considered as liberal democracies in the Western sense, especially during their period of rapid growth.

In light of this controversy, this thesis has two key research questions: 1) Can China catch up?; and 2) What is the particular development model of China? Since the two main research questions are too broad to be assessed directly, each of the research questions is further split into two sub-questions. Corresponding to the question of catch-up, my first research sub-question is 'Is there economic development in China'? After confirming that China has economic development, I further question 'Is there developmental catch-up in China?' Corresponding to the second research question with regard to the development model of China, I first examine 'Is Chinese political economy capitalist?' Subsequently, I seek to understand 'If Chinese political economy is capitalist, what variety of capitalism it is? The two main research questions were derived through critical examination of the existing literature on Chinese development. Specifically, I find that there are two debates, closely related to one another, which remain unresolved and require further investigation in a guided and systematic manner.

The period of active decolonisation following the end of the Second World War garnered massive discussion on how to undertake development, particularly in less developed countries. This thesis engages with development theories that emerged or were popularised after World War II, although the popularity of some theories may have been reduced over the years. The selection of the theories is also directed towards those most commonly engaged with in the existing development literature, most notably on Chinese development. Based on these selection criteria, the four most relevant development theories are identified. These development theories are Modernisation Theory, Dependency Theory, Developmental State Theory and the Theory of Uneven and Combined Development. Therefore, this thesis uses

conceptual frameworks built upon these four theories of development to help us assess the political economy of China.

This chapter is further organised as follows. The first section touches upon the scientific contributions of this thesis to the existing body of knowledge. The second section discusses the historical background of China, from the Mao era to the reform period. This is followed by an examination of the concept of development. In addition to giving an account of the evolution of the concept of development, measurement tools are established. These tools are important because they provide a uniform assessment of development that is lacking in the prior literature. With an established measurement tool that clearly outlines the development indicators, China's development can be assessed systematically. This is followed by an extensive examination of the literature on Chinese development. It was from this literature review that the two main research questions are derived. Following this, there is discussion of the research methodology and an overview of each chapter followed by a conclusion.

1.3 Scientific Contributions

The belief in the rise of China had prompted many scholarly studies about China but there is minimal literature that has employed a theoretical assessment of Chinese political economy and development. An attempt to integrate theoretical perspectives with empirical research in deriving a nuanced understanding of Chinese development would thus help to bridge the gap between theory and practice. The closest work to this thesis is *The BRICs, US 'Decline' and Global Transformations* by Ray Kiely in which he engages with both Modernisation Theory and Dependency Theory in 'the debate over the causes of global inequality – and the need for development' (Kiely, 2015, p. 175). However, his analysis focuses on the broader debates of whether development is possible in the Global South and is not specific to the Chinese context. Moreover, this thesis offers analysis beyond these two theories in examining Chinese development.

In the absence of scholarship that explores Chinese development using theoretical approaches, this study proposes a comparative analysis of the competing theoretical perspectives for a refined understanding of the Chinese political economy. Four development theories notably Modernisation Theory, Dependency Theory, the Theory of Uneven and Combined Development as well as Developmental State Theory were used to examine two key research questions. This new approach eliminates confirmation bias as well as avoiding a simplistic understanding of Chinese development. Theories are essential because they provide concepts to grasp the complexity of the world. This thesis shed lights on general mechanisms and processes of change, specifically dynamic changes in the international division of labour through the lens of development theories. This, I argue, is one of the fundamental contributions this thesis makes to the existing body of knowledge.

Dependency Theory is a formerly important and powerful theory that offers a fierce critique to neoliberal ideas but has since lost its importance as it could not explain fast-growing East Asian economies (Andersson & Axelsson, 2016, p. 8). This thesis revives this theory, arguing that it raises some valid concerns which remained relevant today. In particular, the theory highlights how opening up an economy to core countries will invite many forms of exploitation in peripheral countries. Engaging with Dependency Theory's assumptions creates awareness of the forms of exploitation and dependency that can be faced by peripheral countries in the process of integration into the world economy. This serves as a reminder for peripheral countries to take a more cautious approach when opening up their economy to the outside world.

Another fundamental contribution this thesis make is in acknowledging the importance of theoretical understandings of Chinese development but at the same time recognising that there is often a discrepancy between theoretical predictions and empirical investigations. My observation of China and its development is a case in point. In Chapter 5, I confirmed that after the reforms in the late 1970s, China has

been catching up with advanced industrialised countries. This developmental outcome is in line with the argument made by Modernisation Theory. These reforms brought market forces into the economy, but it must be noted that this was done through constant guidance by the state. Despite agreeing that the Maoist era had laid a strong foundation for China's 'take-off' in later years, the Chinese government has never pushed for full liberalisation of the economy as suggested by Modernisation Theory. My empirical observation reveals that not only has China not adopted free-market policies, but throughout its development process, there were times where liberalisation was reversed (see Chapter 7).

The observation of Chinese experiences shows that success can be attributed to gradual and selective liberalisation of the economy. Most importantly, the Chinese state has facilitated economic integration into the global economy while retaining some forms of autonomy. Specifically, the financial sector is largely controlled by the state and foreign investors are not allowed to invest freely but expected to comply with the requirements stated in the investment catalogue. In addition, a critical engagement with Modernisation Theory's assumptions reveals that its proposed strategies for the development of developing countries will only allow some forms of development and developmental catch-up may not happen spontaneously as TNCs will try to reinforce the subordination of developing countries and their domestic firms.

In Chapter 5, I concur with how the Theory of Uneven and Combined Development has conceptualised China's development trajectories, particularly how China's integration into the global economy coincides with the global restructuring by TNCs of shifting production to the Global South, which has an abundant and cheap labour force. The empirical findings reveal that China did indeed develop in an uneven and combined way as predicted by the Theory of Uneven and Combined Development, yet my analysis reveals that this theory fails to capture how the interaction and competition of different social forces within China has played out, which has partly influenced the decision of the Chinese state to abstain from fully integrating into the

global political economy. Specifically, the decision has retained the financial sector under the watchful eyes of the state. The partial integration of China into the global economy has allowed her to retain some forms of autonomy to shape her economy which I argue, and later demonstrate, is a crucial factor that makes developmental catch-up possible for China, albeit not without challenges[1]. Moreover, social forces within China, notably domestic capitalists, who have become increasingly powerful, will urge the state to pursue high value-added production, which the Theory of Uneven and Combined Development is not able to account for. This is another factor why I argue China has the potential to catch up.

In order to integrate theoretical perspectives with empirical research, the first step taken is to identify the assumptions of theories in relations to my research questions. Based on these assumptions, empirical evidence is collected and analysed which I argue could provide a better understanding of the multiple dimensions of the Chinese political economy. The main timeline of the research is from 1978 to the present (until the period of thesis submission), although development prior to the reform period has also been briefly discussed. Despite this, the spectacular growth of China, shown quantitatively, is the phenomenon which had attracted the attention of many scholars, including myself, to better understand China and its development. This thesis maintains that the conceptual framework proposed allows the assessment of the key debates surrounding Chinese development to be more systematic and comprehensive.

1.4 Historical Background of China

After years of civil wars and occupation by foreign powers, the Communist Party of China (CPC)[2] led by Mao emerged as eventual victor. In 1949, the People's Republic

[1] Note that China may not have the same level of development as the advanced industrialised countries even after it has caught up but the level of development shall be approximate to one another.
[2] Used interchangeably with CCP.

of China (PRC)[3] was officially founded. Since the foundation of the PRC in 1949, the country's elites have striven to develop China. However, natural disasters and political struggles within the CPC have slowed growth in some periods. The main aim of CPC is to build a socialist economy because the previous capitalist economic system was seen to be exploitative and oppressive. By the mid-1950s, all production had been brought under the control of the state. As China was still an agrarian country, the CPC had to decide on the future policy of agriculture. Mao decided to push forward the full collectivisation of the rural economy. Following this reform, farmers were required to pool their tools, equipment and land. Farmers would receive wages based on contribution (Benson, 2013, p. 33). By 1958, Mao had proceeded with establishing commune system in rural China under the Great Leap Forward.

The Great Leap Forward is said to have contributed to 'Three Bitter Years' (1959-1961) where millions of rural Chinese faced starvation mainly due to bad governance (Benson, 2013, pp. 36-37). In a rare rejection to the mainstream idea that the Great Leap Forward is a catastrophe, Han (2009), an independent socialist magazine, contends that there has been a misreading of the Great Leap Forward. Han argues that although the Great Leap Forward had created hardship for rural China, it has also led to improvements in agricultural production and the people's living conditions. In particular, he points out that farmers came to understand the importance of irrigation to improve crop yields (Han, 2009).

Whatever the truth might be, the grave situation during the Great Leap Forward had been highlighted by Peng Dehuai, a military leader, which resulted in his being purged (Benson, 2013, p. 37). In 1959, Mao stepped down as President of China and was succeeded by Liu Shaoqi, who later fell victim to the Cultural Revolution period for being right-leaning (Benson, 2013, p. 37 & 43). Despite all that had happened, it should be emphasised that there was some development before the reform period as discussed in Chapter 4, though the growth was not as phenomenal as it is today.

[3]When I refer to China throughout the thesis, it always mean Mainland China unless otherwise stated.

Specifically, China was able to generate surplus from its trade with other countries before its reform. This gave rise to high savings and modest amount of foreign reserves. Subsequently, I argue in Chapter 4, the growth before reform had helped to lay the foundation for China's industrialisation in the later years.

During the reform and opening-up, China has depended on both foreign trade and foreign investment for the development of its economy (Lin, 2012a, p. 5). In 2016, China received approximately USD 170 billion of Foreign Direct Investment (FDI), down from USD 242 billion in 2015 (World Bank, 2016a). Despite the decline in inflows of FDI in 2016, United Nations Conference on Trade and Development (UNCTAD) reports that China was still the world's third largest recipient of FDI (UNCTAD, 2017, p. 12). What was peculiar was that while Hong Kong is basically a part of China, investments coming from Hong Kong are still considered as foreign investments. Although tracing the source of capital in Hong Kong is complicated because part of this capital is thought to be channelled via Hong Kong from Taiwan and Mainland China for different reasons (Wei, 1996, p. 81), this situation suggests that it was intra-national capital rather than inter-national capital that has contributed most to the economy of China since inflows of FDI from Hong Kong into China remain the largest (National Bureau of Statistics of China, 2016, pp. 372-374). Additionally, overseas Chinese use their cultural and linguistic links to gain favourable preferential treatment in the region where they trace their ancestry (Wei, 1996, p. 82). This is not a form of domestic investment but is also an important distinct characteristic of FDI in China that should be highlighted.

The study by International Monetary Fund (IMF) explained that FDI yields many benefits, but most importantly it provides additional benefit that was not found in other form of capital flows, e.g. it was not able to leave the host country easily, particularly during crisis (Loungani & Razin, 2001). The resilience of such capital proves to be important for developing countries. Southeast Asian countries that depend on non-FDI capital suffered more severely as compared to East Asian countries during the Asian Financial Crisis. The long-term investment nature of FDI

helps to develop human capital and technology in the host countries. Since the reforms, data points that the form of capital flows into China was predominantly FDI except before early 1990s when foreign loans and portfolio investments were the largest contributors to China's foreign investment (Wei, 1996, p. 78; National Bureau Statistics of China, 2014).

Foreign trade has surged to an unprecedented scale, accounting for 12.4 percent of Chinese GDP in 1980 to 64.5 percent of GDP in 2006 (World Bank, 2018a). Through trade and FDI, China has managed to accumulate massive reserves. By 2015, China's total reserves were bigger than the total reserves of the US by nearly 10 times (World Bank, 2016u). Despite these impressive economic figures, there is doubt over whether this represents the real development of China as the figures include the production of foreign companies within Chinese borders. By looking at the aggregate data, it is fairly easy to argue that China indeed has achieved impressive development since its reforms. However, the underlying consequences associated with these figures are largely masked in aggregate figures. The issues of exploitation, oppression and inequality associated with the reforms need to be examined. This thesis has also made use of both aggregate data and disaggregated data for better understanding of the Chinese economy, including how different types of firm ownership have contributed to the economy.

This thesis is interested in uncovering whether the reforms undertaken by the Chinese party-state in the late 1970s helped to achieve economic development, and if these developments eventually pave the way for its catching up. What would then be the development model that has allowed or denied Chinese development? These were the puzzles that the thesis intends to examine since they remain contested today. As a next step, it would be important to assess and understand the concept of development before meaningful discussion about Chinese development can take place.

1.5 Concept of Development

A precise definition of development is difficult to reach because this concept is often associated with values, which, at times, can be politically oriented (Barnett, 1988, p. 173). This is argued by Chambers who contends that '[d]evelopment has been taken to mean different things at different times, in different places, and by different people in different professions and organisations' (Chambers, 2004, p 2). Nevertheless, the definition, 'good change' provided by Chambers (2004, pp. 2-3) is one that resonates with many. However, this definition also poses problem when the nature of good change is perceived differently by different cultures. Conventionally, the idea of development is associated with a country's economic growth. As such, GDP is the most frequently used indicator to assess a country's development. Having a high GDP per capita undoubtedly signifies that this particular country is doing well and growing significantly (Tucker, 2010, p. 530). However, Willis (2005, p. 17) argues that 'the emphasis on the economic, rather than other possible dimensions of development, could be regarded as implying that economic factors are the most important aspects of ''development'''.

Therefore, over time, the understanding of development had evolved to encompass a more comprehensive meaning. In 1990, the United Nations Development Programme (UNDP) introduced the concept of 'human development' (Matthias, 2008, p. 3). This concept encompasses three dimensions that are essential in enlarging people's capabilities: health, education and standard of living. Scholars argue that empowering these three dimensions would allow individuals to have sufficient capabilities to achieve their desired state of being (Stanton, 2007, p. 3). In other words, these three dimensions are the fundamental determinants of the enhancement of individual capabilities. The dimensions are respectively measured by four values, which are life expectancy at birth, adult literacy rates and mean years of schooling, and lastly real GDP per capita, later replaced by real Gross National Product per capita[4] (Bellù,

[4] Due to the nature of businesses in the globalised era, GNI is considered more accurate to portray a country's real income.

2011, pp. 4-5; Engerman, 2007, p. 33). Although others (Seers, 1972; Sen, 1988) had broadly discussed the need for social development alongside economic development at an earlier period, UNDP's initiative arguably did result in a paradigm shift for development.

In order to operationalise the concept of human development, UNDP devised a composite index, which was named the Human Development Index (HDI), an alternative to the GDP approach. This index was built based on the belief that high economic growth that is not translated into enlarging people's capabilities is meaningless. Furthermore, according to the Human Development Report by the UNDP (1996, p.1), 'human development is the end – economic growth a means'. In layman's terms, this means that the purpose of growth is to improve people's lives. This process of translating growth into development may not happen spontaneously.

There are many cases whereby countries that achieve considerable success in their economic growth have lower life expectancy than countries that have less economic growth. Referring to the work of Amartya Sen (1988, p. 12), the study shows that China had USD 310 per capita GNP with 69 years life expectancy in 1984, but South Africa with a higher GNP per capita (USD 2340), and unexpectedly had a shorter life expectancy of only 54 years. Many other variables that could also possibly influence the living conditions should be taken into account. Despite this, Sen (1988, p. 11) agrees that a good economic foundation is essential to the general well-being of humans. Sen's idea was affirmed by the Human Development Report in 1996. It reported that more economic growth is required as we step into the 21st century but that growth ought to be channelled into improving people's living conditions. Only then can countries achieve real development. The Human Development Report published in 2010 further found that 'there is a strong relation between national levels of income and national levels of health and education' (UNDP, 2010, pp. 47-48). It was found that this is also applicable at the individual and household levels. Overall, the HDI is essential to capture the multi-faceted nature of development. The results in terms of HDI can also help countries to design policies more effectively, especially

policies towards eradication of poverty, one of the Millennium Development Goals (MDGs) set by the UN.

The concept of development had evolved over the years and when discussing development in general terms, the concept of human development is much more well-received. However, as indicated, this thesis assesses Chinese development using a conceptual framework built upon existing development theories, and as such it is more appropriate to use the concept of development as defined by these theories as found in political economy literature. In general, the political economy literature defines 'development' as 'something that occurs in the developing world, describing the processes by which poorer countries catch up with richer, developed, countries' (Kiely, 2007a, p. 9). This idea of development was popularised post-1945. The root of the idea, however, dates back to the eighteenth century, and was characterised by debates about modernity and progress (Kiely, 2007a, pp. 9-10). Post-development theorists would argue that this concept of development is Eurocentric (Willis, 2005, p. 28). Nevertheless, according to Barnett (1988, p. 179), Weber believes a development concept which is ascribed with values is not a major problem if the 'form of the argument, the definitions of the concepts, the method of measurement, is made clear to others'. Concurring with Weber's position that a concept ascribed with values is less of a problem if clearly presented, this thesis aligns with the concept of development used in the main political economy literature after the Second World War. In that sense, development generally refers to the process of catch-up of poorer countries with richer and more advanced countries (Kiely, 2007a, p. 9). Likewise, such a conceptualisation of development is also one that is widely adopted in the Chinese development literature. However, there is minimal literature that discusses the operationalisation of catch up which makes it an abstract concept. In essence, the operationalisation of catch-up would require comparison of the level of development of China with developed countries.

Therefore, this thesis will assess the Chinese level of development in terms of its economic progress and the advancement of technology in relation to the developed

countries, especially the US. Economic progress of China is assessed by economic indicators such as GDP and GDP per capita, trade balance, total amount of foreign reserves, household income, poverty rate, and other related indicators. When discussing developmental catch-up of China, I will also assess the level of technological advancement by examining Chinese R&D expenditure, the number of patents Chinese firms produce, domestic value-added content in trade, and other related indicators. A large improvement in productivity is closely related to a country's technological prowess. Therefore, TFP is also one important indicators to evaluate Chinese technological advancement. After establishing the concept of development and its measurement, I would move on to discuss how the two main research questions, 'Can China catch up?' and 'What is the particular development model of China?' are derived.

1.6 Research Questions

In the scholarly literature, there are two main ongoing and unresolved debates concerning Chinese development. One of the debates revolves around the question of 'catch-up' or 'overtake'. General consensus found in the existing literature maintains that China has not caught up with or outstripped the US position as the next superpower (Panitch & Gindin, 2013; Hardy & Budd, 2012). Panitch & Gindin (2013) maintain that catch-up would not be possible as the US is still very dominant. According to Yang & Yang (2007), China is focusing on 'limited catch-up' rather than relative catch-up based on comparative advantage strategy. If China were to pursue relative catch-up, they would have adhered to producing exports that are in their comparative advantage. Instead, Yang & Yang's (2007) study found that China has diversified their exports in the last twenty years, which include products that have higher technological contents.

On a more positive note, Arrighi (2007) maintains that China could replace the US in the future because of declining US hegemony. Although Arrighi argues that the US unilateral decision to go to war in Iraq has reflected its declining position, Nye (2002)

believes that the US still remains the hegemon. Even if Arrighi (2007) does anticipate the end of the capitalist global order led by America, the idea that China would incontestably replace present-day capitalism is not explicitly stated. Hence, Arrighi also did not provide a definite answer to the debate. Therefore, there is a need to systematically re-examine the debate on catch-up from the conceptual framework built upon existing development theories.

The first debate, which formed my first research question, 'Can China catch up?' is too broad to be examined. For a possible discussion of catch-up, a country must first have economic development. Therefore, examining 'Is there economic development in China?' would help to constrict the scope of analysis. This is because conventional wisdom asserts that economic development would always be a pre-condition for catch-up. Therefore, the first research sub-question, **'Is there economic development in China?'** can be assessed by both Modernisation Theory and Dependency Theory. On the one hand, Dependency Theory expects that opening up the economy would allow MNCs to relocate the capital to China for the production of low value-added products. While relocation of capital into China may seem good for Chinese development, Dependency Theory argues that large portions of profits created domestically are captured by MNCs, leaving very little surplus for China. Moreover, the way China was integrated into the global capitalist system compels her to undertake a role as producer of low value-added goods. Therefore, an exchange between China and developed countries which produce high value-added goods would lead to unfavourable terms of trade for China. As a result, China would have very little surplus or even experience a negative trade balance with advanced industrialised countries because of its (continued) dependence on foreign technologies. Therefore, China is expected to be underdeveloped. On the other hand, Modernisation Theory expects China to achieve economic development as she embarks on the process of modernisation. This must be initiated through build-ups of social overhead capital, the development of agricultural technology, and expansions

of imports including imports of foreign capital[5]. Only after these three sectors are being developed would China begin to see an increase in income per capita. In the process, China would achieve high savings and high investment rates as well as experiencing technological upgrading.

After confirming China has experienced economic development, I put forth the second research sub-question pertaining to the debate of catch-up: **'Is there developmental catch-up in China?'** This question is raised by Modernisation Theory and the Theory of Uneven and Combined Development. Modernisation Theory argues that China would be able to catch up with developed nations if China embarked on the process of modernisation[6]. In contrary, the Theory of Uneven and Combined Development is less optimistic about China catching up. According to Davidson (2010), it is not possible for developing countries to catch up or over take the advanced capitalist states because their late integration into the capitalist system makes these countries develop in a fragmented way.

Another important puzzle that ought to be explored, which formed my second key research question is: 'What is the particular development model of China?' In order to comprehend the Chinese development model, I begin by engaging in a debate on the characteristics of the Chinese political economy. There are debates about whether China is a capitalist or non-capitalist state. Some scholars argue that China did follow a capitalist path of development after the economic reforms in the late 1970s (Qi, 2014; Huang, 2008; Kolo, 2007). Huang (2008) contends that China has adapted a system of Capitalism with Chinese characteristics in which the state plays a greater than usual role. However, Chinese government affirms China as Socialism with Chinese Characteristics. Samir Amin (2013), Ford (2009), Walsh (2008) and Arrighi (2007) argue that China has not developed in a capitalist way. Ford (2009) asserts that there are some elements of capitalism in Chinese economy, but it is nevertheless not a capitalist state. He criticises numerous sources that depict China as a capitalist

[5] Build-up of social overhead capital, development of agriculture technology and expansions in imports are referred to as the development of the three non-industrial sectors.
[6] According to Rostow, the process of modernisation is done through industrialisation.

state. Similarly, Samir Amin (2013) argues that contemporary China is not 'capitalist'[7] simply because capitalism is based on the transformation of land into a commodity while in China, land can never be traded. These debates requires further examination on the question: **'Is Chinese political economy capitalist?'** This is done through extensive review and analysis of different arguments put forth by various literature.

The literature that argues that the Chinese political economy is capitalist often fails to take into account the different varieties of capitalism. The findings of the third research sub-question lead us to the fourth research sub-question: **'If Chinese political economy is capitalist, what variety of capitalism it is?'** This question could be addressed by Modernisation Theory and Developmental State Theory. Based on the assumptions of Modernisation Theory, China is emulating western capitalism based on free-market development model. First, it expects China to liberalise its economy and adopt market-friendly policies. This change is undoubtedly carried out by an effective national government. Following this, China would further push for full liberalisation of the economy. In contrast, based on the assumptions of Developmental State Theory, China is adopting an alternative capitalism based on the state-led development model. According to this model, the Chinese state would have a strong role in dictating the market direction. This is the main difference between Developmental State Theory and Modernisation Theory. According to Developmental State Theory, the state does not comply with the market, but instead commands the market to conform to its national policy. As a result, the action of the state would sometimes defy market forces. In contrast, Modernisation Theorists claim that the transformation will be led by an effective national government that works according to the logic of the market. Next, I explore the different research methods needed to answer the four research sub-questions.

[7] Samir Amin argues that China is not 'capitalist state' but 'state capitalist', which is different from the free-market capitalism purported by the West. This will be further discussed in Chapter 6.

1.7 Research Methodology

This thesis is a theoretically-grounded empirical study of Chinese development in the global economy. The main objective of this thesis is to examine and understand several continuing and unresolved debates surrounding Chinese development. The literature that examines Chinese development is either purely empirical (e.g. Huang, 2008) or has engaged with only one theory to assess Chinese development (e.g. Davidson, 2006b). Therefore, there is a need to re-assess Chinese development from the perspectives of several development theories. The proposed approach of comparative analysis of the competing theoretical perspectives which sheds light on the multiple facets of the Chinese political economy leads to a more informed view about China.

In general, there are two unresolved debates surrounding Chinese development. On the one hand, much literature has agreed that China's economic growth has been remarkable. However, there are still doubts on whether the impressive economic figures reflect China's catch-up with developed countries. The second debate arises from the mixed opinions of scholars regarding China's economic development model. Certain scholars have associated the China model with East Asian Model or Developmental State Model (Boltho & Weber, 2009; Arrighi, 2007), but others tend to disagree with this association. Zhao (2010) and Huang (2008) in particular argue that the China model might appear similar to East Asian Model; nevertheless, they are not the same. These persistent debates formed the main research questions for this thesis: 1) Can China catch up?; and 2) What is the particular development model of China?

The impressive double-digit GDP growth of China is undisputed and may have reflected its economic growth, but not its economic development. As such, prior to the assessment of a country's catch-up, the principal task is to assess its economic development. Economic development is taken to mean not only its economic growth,

but also its competitiveness and productivity. This definition of economic development adopted in the thesis has been laid out at the start of Chapter 4. I argue that although economic development may not be a sufficient criterion for a country's catch-up, it is certainly a *necessary* condition. Building on the first research question, I begin by addressing 'Is there economic development in China?' If there were indeed economic development, it would then make more sense to address the question of catch-up. Following the conclusion of the first research sub-question, I arrived at the second research sub-question, 'Is there developmental catch-up in China?'

There is an attempt by scholars to understand if China has followed a capitalist path of development. If a capitalist path was pursued, its development model will resemble those of other capitalist states. However, the Chinese government has dismissed the claim that she is pursuing a capitalist path despite her embrace of a market economy. Chinese government maintains that China remains a socialist state to date. It is essential to examine both positions in order to uncover which development model China has pursued. Therefore, I started by asking, 'Is Chinese political economy capitalist?' Similarly, the fourth research sub-question is derived from the conclusion of my third research sub-question. Following that, I examine 'If Chinese political economy is capitalist, what variety of capitalism it is?'

This thesis assesses research sub-questions using established frameworks of development theories. Accordingly, the first research sub-question, 'Is there economic development in China?' is addressed through the lenses of Modernisation Theory and Dependency Theory. The second research sub-question, 'Is there developmental catch-up in China'? is addressed through the lenses of Modernisation Theory and the Theory of Uneven and Combined Development. As for the third research sub-question, 'Is Chinese political economy capitalist?', no relevant development theories could be used to assess the question. Therefore, the third research sub-question is addressed through the assessment of work reports of the Chinese government, speeches of Chinese leaders and other scholarly literature. The fourth research sub- question, 'If Chinese political economy is capitalist, what variety

of capitalism it is?' is addressed through the lens of Modernisation Theory and Developmental State Theory.

Guided by the proposed conceptual frameworks, this thesis re-examines the debates around Chinese development through a systematic analysis of empirical data, which is useful in grasping the complexity of the Chinese political economy and its development. In understanding a broad and complex phenomenon, theories can provide a clearer framework for more organised and systematic collection and organisation of data (Løkke & Sørensen, 2014, p. 68). Since theories focus on key variables, they drive research in a more meaningful and useful direction. In the words of Nadel (1956, p. 167), 'theory provides something like a conceptual blueprint, mapping out the problem areas, indicating their presumed significance, and generally foreshadowing lines of inquiry'. The importance of theory is also reflected in the words of Yin: 'Empirical research advances only when it is accompanied by theory and logical inquiry and not when treated as a mechanistic or data collection endeavor' (Yin, 2003, p. xv).

The main objective of this thesis is to develop a better understanding of Chinese development in relations to two key debates using the proposed conceptual frameworks. For this purpose, this thesis is qualitative in nature and the main method employed to achieve the objective is document analysis.

1.7.1 Document Analysis

This thesis primarily relies on primary sources (government documents, statistical data from government agencies, and intergovernmental organisation reports) and secondary sources (books, academic journals, and international financial institution reports) to analyse the propositions put forth by development theories in relation to the research questions. Document analysis is particularly useful to trace the change and development of Chinese government policies (Bowen, 2009, p. 30).

Most if not all the sources examined by the researcher were written in English. The intention of the Chinese government to promote deeper engagement with the international community has led to substantial number of scholarly works published in English language (Shen, 2017, p. 2). Specifically, newspaper articles, economics statistics, speeches of core leaders, as well as reports by both the CPC and State Council, which are crucial in the understanding of China and its development, are published in English. These sources impart a great deal of knowledge on the inner workings of the Chinese political economy. On the other hand, collaborative works between international and Chinese institutions provide a combination of 'outsider' and 'insider' views on China and its development. One notable example of such studies is the China Household Finance Survey.

There was a heated debate over the reliability of the Chinese GDP figures that begun in the late 1990s (Holz, 2014, p. 310). As Liaoning provincial leader came forward admitting that the province had inflated data from 2011 to 2014, this news further caused distrust on the authenticity of the Chinese data (Xinhua, 2017, April 24; Wang, Y., 2017). Head of the NBS, Ning Jizhe said that central government would not tolerate any data falsifications and vowed to punish the perpetrators. Moreover, Ning maintains that despite the data falsifications found at the local level, statistics at the national level are 'authentic and reliable' (China Daily, January 20, 2017). Indeed, a close study on the quality of China's GDP statistics at the national level by Holz indicates that there is no compelling evidence to suggest that NBS has engaged in data falsification. In fact, in order to ensure that the national-level data published is reflective of the real Chinese economy, NBS has not relied much on the provincial data, but instead derived the statistics through economic census, yearly data from directly reporting units and centrally organised, nationwide sample surveys (Holz, 2014, p. 315). This thesis is also aware that there is politics in play in some trade data, such as on the alleged market protection and subsidies in China. Therefore, researcher took a critical approach towards the sources used in this thesis. Specifically, to seek clarification on the controversial issue of subsidies and market protection, researcher has looked at reports by WTO and other scholarships which do

not have any conflict of interest. At the same time, the disputes over prohibited subsidies in China are very often challenged by the US; therefore, this thesis would also refer to the speeches and reports by Chinese and American officials over the controversy for a better outlook.

In this thesis, I engaged with an extensive scholarly literature on Chinese development, but this thesis made most reference to the work of Yasheng Huang, *Capitalism with Chinese Characteristics* and Ray Kiely's work on *The BRICs, US 'Decline' and Global Transformation*. The study by Huang (2008) is arguably one of the most cited piece of work for the understanding of the inner workings of the Chinese political economy. Huang's study was substantiated with various data ranging from government working reports to collections of bank documents, many of which were inaccessible to us. Similarly, Kiely (2015) has provided this thesis with many worthwhile statistics on China's economy in his wider discussion of the rising BRICs. Kiely has argued that the high rates of FDI flowing into China do not translate into real economic gain for China. Foreign firms were often the biggest beneficiaries from low-wage work and the tax breaks provided by the Chinese government. This argument was re-examined in parts of the thesis.

Additionally, to understand the key events that took place since the founding of the PRC which later informed the policies of the government, this thesis refers to the book by Linda Benson, *China Since 1949* as it provides a rich historical account of China both before and after its reforms. In particular, the book illustrates how policies during the Mao era and the post-Mao era have shaped the lives of ordinary citizens. Other books that this thesis drew on include *Subsidies to Chinese Industry: State Capitalism, Business Strategy and Trade Policy* by Haley & Haley (2013) and *Demystifying the Chinese Economy* by Lin (2012a).

Also drawing statistics from Kiely (2015), this thesis derived other essential data from the website of the National Bureau Statistics of China[8]. Specifically, this thesis draws data from various years of the China Statistical Yearbook found on the website[9]. This includes data ranging from basic statistics on science and technology activities to foreign trade and economic cooperation with other countries. The China Household Finance Survey[10] conducted by Southwestern University of Finance and Economics in Chengdu with Mr. Gan Li of Texas A&M University further complemented data from the Statistical Yearbook. This survey collects household-level data which was used to measure and estimate the Gini coefficient of rural and urban areas. The findings of the survey also shed lights on the highly uneven distribution of household assets. China Household Income Project[11]was meant to trace and analyse China's inequality across more than a decade. The leading core researchers in the project had further discussed the results of their findings in subsequent publications notably *The Distribution of Household Income in China: Inequality, Poverty and Policies* and *Recent Changes in Income Inequality in China*, to which this thesis also made reference.

For a balanced view of Chinese statistical data, this thesis also draws information from reports produced by intergovernmental organisations such as the WTO, IMF, OECD, and UNCTAD as well as from international financial institutions such as PwC, Deloitte, and Goldman Sachs. This thesis refers to *World Investment Reports* for the years 2015 and 2017 published by UNCTAD for data concerning China's trade and investment[12]. Since these investment reports also provide trade and investment data for other countries, it has allowed comparative assessment of China's trade and investments in relations to other countries. This thesis assesses not only

[8] Data over time obtained from National Database of National Bureau of Statistics of China: http://data.stats.gov.cn/english/easyquery.htm?cn=C01
[9] China statistical Yearbook obtained from: http://www.stats.gov.cn/english/statisticaldata/annualdata/
[10]Studies obtained from: http://www.chfsdata.org/yanjiuchengguo.aspx
[11] Studies obtained from: https://www.icpsr.umich.edu/icpsrweb/ICPSR/series/243
[12] Reports retrieved from: http://unctad.org/en/pages/DIAE/World%20Investment%20Report/WIR-Series.aspx

China's own level of development, but also compares it to the level of development of other countries across different time frame. For this purpose, the thesis uses World Bank database for aggregate time-series data that allows cross-country comparison[13].

Since the Chinese economy has always been benchmarked against the US, this thesis has also identified the opinions and evaluations of various US government agencies towards China and its development by examining authoritative reports or press releases by the CIA[14], United States Trade Representative[15], US Department of State[16] and US - China Economic and Security Review Commission[17]. Additionally, this thesis makes use of other sources such as journal articles from *The China Quarterly, Journal of Contemporary China, Globalizations,* and *Third World Quarterly* as well as newspaper articles from *China Daily*, *People's Daily*, *The Financial Times, Reuters,* and *South China Morning Post*.

In Chapter 6, I examine whether the Chinese political economy is capitalist or non-capitalist by examining various sources including speeches of top Chinese national leaders, key scholarly literature that placed China as non-capitalist as well as those that placed China as capitalist. As there were intense ideological battles within the party after the death of Mao, Deng Xiaoping in his defence of economic reforms and opening up had in many occasions argued that these initiatives remained close to the socialist path that China had pursued in the past. Therefore, I studied and drew extensively on speeches of Deng Xiaoping, compiled in *Selected Works of Deng Xiaoping* across three volumes to understand the underlying meaning of 'Socialism with Chinese Characteristics'. Subsequently, how other top national leaders such as former President Jiang Zeming and President Hu Jintao, and current President Xi Jinping justify the concept of 'Socialism with Chinese Characteristics' was also

[13] Data retrieved from World Bank database: https://data.worldbank.org/
[14]Official website of CIA Library: https://www.cia.gov/library
[15] Press Release found at: https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/april/chinese-export-subsidies-under
[16] Report on China retrieved from Official website of US Department of State: https://www.state.gov/e/eb/rls/othr/ics/2014/index.htm
[17] Report retrieved from Official website of US – China Economic and Security Review Commission: https://www.uscc.gov/Annual_Reports/2017-annual-report

examined. In Chapter 6, I explore claims made in the existing literature concerning violation of workers' rights in China, which I cross-check with data from non-governmental organisations, specifically China Labour Bulletin[18] and China Labor Watch[19].

Generally, this thesis has engaged with sources from the Chinese government, newspaper reports, non-governmental and intergovernmental organisations' reports and databases, independent financial institutions' reports, and existing scholarship on China and its development. The triangulation of data from various sources is important to assert the credibility of the findings (Bowen, 2009, p. 30). Since it would mainly require macro-level data to assess the Chinese political economy using the proposed conceptual frameworks, I maintain that document analysis is the best method to achieve the goal. While going on fieldwork might be an option for the research, the data required could be readily obtained from various sources that I had engaged with. The breadth and depth of the data collected by Chinese government agencies and international organisations on foreign trade and investment, productivity level, and science and technology development is sufficient for the proper conduct of the research. Therefore, interviews with academics or provincial officials are optional. Instead, devoting more time to researching documents has allowed me to engage more broadly and deeply with different sources to generate an unbiased view about Chinese development.

1.8 Chapter Outline

This thesis is divided into six main chapters, plus introductory and concluding chapters. The first two chapters begin with a conceptualisation of the first key research question: 'Can China catch up?' and the second key research question: 'What is the particular development model of China?' The two key research

[18]China Labour Bulletin based in Hong Kong. See website: http://www.clb.org.hk/
[19] China Labor Watch based in New York: http://chinalaborwatch.org/home.aspx

questions were subdivided into four research sub-questions, which drove the remaining four substantive chapters.

1.8.1 Conceptualisation of China's catch-up

Chapter 2 establishes a conceptual framework drawing on various theories to assess whether China can catch-up with developed countries. Three theories of development provide competing accounts on China's catch-up. First, this chapter discusses the general ideas of Modernisation Theory, Dependency Theory and the Theory of Uneven and Combined Development. Subsequently, this chapter critically evaluates the assumptions outlined by Modernisation Theory, Dependency Theory and the Theory of Uneven and Combined Development with regard to China's catch-up. Modernisation Theory believes that catch-up is possible through opening up of the economy while Dependency Theory is highly critical of establishing foreign contacts arguing that it could in fact make China underdeveloped. On the other hand, the Theory of Uneven and Combined Development maintains that growth is possible from developing countries' integration into the global economy, but development would occur in a partial and fragmented way, rendering catch-up less likely.

1.8.2 Conceptualisation of China's Development Model

Chapter 3 draws on various development theories to establish a relevant conceptual framework to determine what the particular development model of China is. Two development theories, Modernisation Theory and Developmental State Theory, offer two distinctive models of development that China could have possibly adopted. Modernisation Theory argues that China embraces the free-market development model of Anglo-Saxon economies whereas Developmental State Theory argues that China's development model resembles the state-led development model of East Asian economies.

1.8.3 Is there economic development in China?

Chapter 4 examines my first research sub-question: Is there economic development in China? There are two competing arguments derived from Modernisation Theory and Dependency Theory. The former argues that the reforms China undertook in the 1970s have led to exceptional growth. This theory specifically argues that with the influx of foreign investments, China has been able to raise its income per capita, reduce poverty and narrow its technological gap with the advanced countries. By first developing its social overhead capital, revolutionising its agricultural technology and expanding its imports, including capital, China was able to 'take off' (attain economic development). In contrast, Dependency Theory argues that the reforms in the 1970s would lead China into underdevelopment. Specifically, by opening up to foreign investment, the inferior position of China in the international division of labour would force her to engage in low value-added economic activities. As a result, China would also suffer unfavourable terms of trade against developed countries. Also, the TNCs would repatriate profits back to its home country, leaving few benefits for China. The end result would only be impoverishment of China. Analysis of empirical data suggests that China was able to attain exceptional economic development after its reform period.

1.8.4 Is there developmental catch-up in China?

Chapter 5 examines my second sub-research question: Is there developmental catch-up in China? There are two competing arguments derived from Modernisation Theory and the Theory of Uneven and Combined Development. The former argues that China could catch-up if it adopted strategies outlined by the theory. Specifically, the Chinese national government has to create conditions that allow market forces to operate freely in the economy. On the other hand, the Theory of Uneven and Combined Development contends that the reforms in the 1970s makes China developed in uneven and combined ways. Certain regions and sectors would be more developed, and other regions and sectors less developed. Similarly, high level of

income inequality persists. The unevenness of the economy could trigger potential social unrest. Using macro-level data to assess China's development progress, I find that in general China has been able to raise its income per capita relative to the US. China has also devoted massive R&D spending to close its productivity level and technological gap with the advanced countries, particularly the US. Despite these achievements, China would need to greatly increase its innovation capacity and become leader in one or more leading sectors to be considered on par with the US in terms of technology.

1.8.5 Is Chinese political economy capitalist?

Chapter 6 examines my third research sub-question: Is Chinese political economy capitalist? Chinese official position maintains China as 'Socialism with Chinese Characteristics' while Huang (2008) argues that China is 'Capitalism with Chinese Characteristics'. Other scholars such as Samir Amin (2013) also argues that China is non-capitalist because there is no commodification of land in China. This chapter assesses all scholarly work and finds that the social relations of production within China are organised around wage labour and continued exploitation of the workers. Furthermore, high inequality accompanied by high growth does not correspond well with socialist doctrine. Therefore, it has been concluded that the Chinese political economy is capitalist.

1.8.6 If Chinese political economy is capitalist, what variety of capitalism it is?

Chapter 7 examines my fourth research sub-question: If Chinese political economy is capitalist, what variety of capitalism it is? There are two competing arguments derived from Modernisation Theory and Developmental State Theory. The former argues that China adopted a variety of capitalism based on free-market development model, which results in China's exceptionally development while the latter argues

that China's development adopts a variety of capitalism based on the state-led development model of East Asian economies. The analysis confirms that China's development model broadly resembles the State-led Development Model or commonly referred to as East Asian Model, with certain particularities highlighted.

1.9 Conclusion

There are many debates around Chinese development that remain unresolved today. As a result, I see a need to re-assess these debates. From the critical examination of existing literature, I derived two main research questions, which are: 1) Can China catch up?; and 2) What is the particular development model of China? Building on these two main research questions, I arrived at four research sub-questions: 1) 'Is there economic development in China?'; 2) 'Is there developmental catch-up in China?'; 3) 'Is Chinese political economy capitalist?' 4) 'If Chinese political economy is capitalist, what variety of capitalism it is?

This thesis offers a comparative analysis of the competing theoretical perspectives for understanding the Chinese political economy. This new approach, to my knowledge, is a novel attempt to study China, not found in the existing Chinese development literature. The notable contribution of the conceptual framework is that it is able to shed light on multiple dimensions of the Chinese political economy. Each proposition outlined by selected development theories was examined through gathering and analysing empirical evidence from various credible sources. This includes but is not limited to reports by Chinese government agencies, newspapers, international organisations' reports and databases as well as key literature such as the works by Huang (2008), *Capitalism with Chinese Characteristics* and Kiely (2015), *The BRICs, US 'Decline' and Global Transformation*. However, as these development theories emerged or were popularised during post-colonialism, these theories conceptualised development as 'catching up' with richer and more advanced countries. This is the conceptualisation employed in this thesis.

CHAPTER 2

DEVELOPMENT AND CATCH UP

2.1 Introduction

This thesis takes into account theories of development formulated after the Second World War mainly because this was a period of decolonisation, which gave birth to new sovereign states. Therefore, it was a period which garnered massive discussion on how to undertake development, particularly in these newly independent 'underdeveloped' states. This thesis also intentionally avoids grand theories but picked theories that have much more specificity in explicating development process. Also that, the selection of the theories is also based on a selection of those most commonly applied in the existing development literature, most notably on Chinese development. Based on these selection criteria, the four most relevant development theories are identified. They are Modernisation Theory, Dependency Theory, Developmental State Theory, and the Theory of Uneven and Combined Development. Three relevant theories, Modernisation Theory, Dependency Theory as well as the Theory of Uneven and Combined Development could answer to the first research question, 'Can China catch up'? Therefore, Chapter 2 aims to lay the conceptual framework for research question 1. The following section provides a general overview of the three theories. The next section is a more specific discussion on the expectations of each of the theory on the issue of Chinese catch-up. In short, Modernisation Theory is in the opinion that China could catch up with developed countries following its integration into the world economy. On the other hand, the Theory of Uneven and Combined Development acknowledges the progress China has made but disagree that catch up is possible. On a more pessimistic note, Dependency Theory argues that the integration of China into the world economy has enriched the West at the expense of China. Therefore, catch up is not at all possible.

2.2 Propositions of Modernisation Theory on the Idea of Catch-up

Generally, the basic idea of modernisation theory is that countries develop in a linear fashion. Modernisation theory categorises societies into two types: traditional and modern. This theory suggests that different societies inherently have different economic characteristics. Less developed societies have agriculture-based economies whereas highly developed societies have industry-based economies. Industrialisation is more desirable compared to an agriculture-based economy. Therefore, Modernisation theory has been used to argue how developing countries (traditional societies) should adopt modernity to achieve development. 'For all practical purposes Modernisation is equivalent to Westernisation, since the Western countries first reached modernity and therefore have served as models for the rest of the world' (Hettne, 1983, p. 250). For Modernisation Theory, '[u]nderdevelopment was an initial state' (Rapley, 1997, pp. 16-17). This means that 'any country could achieve development, provided it followed the stages the western countries, and Britain first of all, went through. Once a country achieves the preconditions of development, then the latter followed almost automatically' (Solivet, 2005, p. 722).

Modernisation Theory argues that, once the momentum is gained, growth would continue and is irreversible. Therefore, this theory conceptualises development as a process of 'catching up' for developing countries. As this thesis focuses on the political economy of China, I engage with the economic aspect of Modernisation Theory propounded by Walter Rostow. Rostow has been credited for giving Modernisation Theory its best and most concrete form through his five developmental stages (Yeh, 1989, p. 3). A detailed explanation of the five stages of growth outlined by Rostow (1960, 1959) is described below:

1. **The Traditional Society**

   Traditional society generally developed within limited production functions. Their productions are based on pre-Newtonian science and technology but this

does not mean there is no increase in output. Some ad hoc productive innovations could bring about an increase in agricultural output and productivity. However, the limitations of technology created a ceiling on the level of attainable output per head which they are not capable of penetrating (Rostow, 1959, p. 2; 1960, p. 4). This ceiling existed because these societies 'lack a systematic understanding of their physical environment capable of making invention a more or less regular current flow' (Rostow, 1959, p. 4). In a simpler manner, it basically means that the traditional societies are not outward-looking enough to unveil the potential of modern science and technology and apply it regularly and systematically. Since there is a limitation on productivity, the society needs to devote a larger quantity of working forces and resources to agriculture. This agricultural system results in a hierarchical social structure with limited vertical mobility. The central political power resides in the hands of landowners backed by soldiers and civil servants. However, those who controlled or owned the land may fluctuate over time due to intense competition.

2. **The Preconditions for Take-off**

There comes a period in time where the traditional society would transform in a way that enables it to reap the fruits of modern science. The gradual evolution of modern science and the expansion of world markets with the discovery of new lands, coincides with the urge to create new technology and allow for the preconditions for take-off to be developed. Initially, the preconditions for take-off were developed in Western Europe in the late seventeenth and early eighteenth centuries. During this period, new production functions of agriculture and industry were being translated from the insights of the modern science (Rostow, 1960, p. 5). The expansion of the market for trading within Europe and overseas increased the specialisation of production, international dependence and market incentives to create new production functions. The struggle for power between the old dynasties,

which was inherited from the world of traditional society, heightened the process of creating new production functions. Britain, favoured by various factors, became the first among the Western European states to fully develop the preconditions for take-off. However, in modern history, the stage of preconditions does not happen internally. Rather, it happens through some external intervention by more advanced societies. This external shock begins to decompose traditional societies by bringing in ideas and sentiments that initiate the process of construction of a modern alternative to the traditional society. Technically, there is a need for radical change in three non-industrial sectors. First would be a build-up in its social overhead capital; secondly, a technological revolution in agriculture; and lastly, an expansion in imports of products and possibly capital. Alongside these technical developments, there must also be a change in society's attitudes to embrace new things, the emergence of a new group of industrial entrepreneurs as well as an able and willing national government that would provide favourable conditions for the new modernising activities to take place. Nonetheless, these activities proliferates at a limited rate as the society is still reliant on traditional low-productivity methods and still maintains its old social structures and values. Although there are major changes in the economy and the balance of social values, the most decisive feature of the preconditions period is the establishment of an effective national government; it is as thought a necessary condition for take-off.

3. **The Take-Off**

The third stage is the interval phase in which obstacles to steady growth are finally cleared. The main stimulus for take-off is technological but the emergence of a group with political power that regards the modernisation of the economy as a priority, is also of importance. This period sees rapid growth due to modern industrial techniques, but only in a limited number of sectors. There is a noticeable rise in effective investment and savings in this period,

increasing from 5 percent of the national income to 10 percent or more (Rostow, 1960, p. 8). A high investment rate could also be found during the preconditions for take-off at more than 5 percent. The major part of total investment is made up of capital imports in the preconditions stage and sometimes during take-off such as in Russia and Canada. In the take-off stage, new industries expand massively, giving rise to large profits which are usually reinvested in new plant. This cyclical process induces further expansion in urban areas and in other modern sectors. Such expansion creates a new class of entrepreneurs with more disposable income to invest in the private sector, thus enabling exploitation of unused natural resources and new techniques of production. The availability of new techniques in agriculture as well as industry enables agriculture to be commercialised. With that, many farmers are ready to take up the new methods and the impacts they bring to the ways of life. According to Rostow (1960, p. 8), '[t]he revolutionary changes in agricultural productivity are an essential condition for successful take-off; for modernisation of a society increases radically its bill for agricultural products'. In the coming decades, there would be structural shocks that change the basic structure of the economy, society and politics that allow for a sustainable steady growth rate to occur. This period also 'witnesses a definitive social, political, and cultural victory of those who would modernise the economy' (Rostow, 1959, p. 7). It could, however, be a form of mutual accommodation rather than destruction of the traditional groups by the more modern ones.

4. The Drive to Maturity

Rostow (1959, p. 8) has defined the period of economic maturity as 'when a society has effectively applied the range of (then) modern technology to the bulk of its resources'. For a society to transform from take-off to maturity, it appears that it needs around 60 years. This long interval sees a sustainable growing economy that keeps extending modern technology over the whole

scope of its economy. Approximately 10-20 percent of the national income is invested and as technique improves, old leading sectors are supplanted by new leading sectors. During take-off, the focus is on a relatively narrow complex of industry and technology but the following period of maturity has expanded into technologically more complex processes. Rostow (1960, p. 9) has observed the shift in focus from the railway phase – coal, iron, and heavy engineering – to machine tools, chemicals, and electric equipment in Britain, France, Germany, and the US. However, there may be other sectoral patterns that follow a sequence from take-off to maturity. When a country is able to move beyond the original industry that powered its take-off and able to efficiently make use of its most advanced modern technology, maturity is attained. In that period, leading sectors will be determined not only by a country's technical and entrepreneurial skills but also by its natural resources. However, the final determining factor rests on political decisions (Rostow, 1960, p. 10).

In his article published in 1959, Rostow has brought up a special case for discussion. In a mature nation, there may still be some regions or sectors that for some reason reject the thorough application of the range of modern technology. One of the examples he provided was that contemporary mature Canada that has a relatively technologically backward Quebec (Rostow, 1959, pp. 8-9). Hence, according to Rostow (1959, p. 9), '[t]he technological definition of maturity must, then, be an approximation, when applied to a whole national society'. The same applies to contemporary Russia which by and large is judged as mature economy although it has more than 40 percent of the working forces in agriculture and relatively less developed consumer goods industries. The justification is that it is a deliberate political decision by its leaders to concentrate on certain sectors rather than a restriction arising from the supply of capital, entrepreneurial skills and technology. In normal circumstances, the process of growth would necessarily raise income per head. However, the income per capita is not always uniform among nations or

even regions within a nation (Rostow, 1959, p. 9). Therefore, there will be and are likely to be technically mature societies that can be both rich and poor. As a society achieves technological maturity, the structure and quality of its workforce would also change. The population working in agriculture will fall and there will be an increase in the urban population consisting particularly of semi-skilled workers and white collar professionals. These new working forces recognise their ability to influence political decisions, pressuring the government to provide socioeconomic safety nets. In addition, the characteristics of the national leadership would also change. Such changes could cause changes in the society's mood in which they would 'react against the harshness and social costs of the drive to maturity' (Rostow, 1959, p. 11).

5. The Age of High Mass-Consumption

Rostow (1959, p. 11) predicts that there are three directions that a mature economy could turn to when the society refuse to accept the extension of modern technology as an over-riding goal. These are: 'to offer, by public measures, increased security, welfare, and perhaps, leisure to the working forces; to provide enlarged private consumption – including single family homes and durable consumer goods and services – on a mass basis; to seek enlarged power for the mature nation on the world scene'. At the post-maturity stage, there would be changes in the economy as well in social demands. When a society is mature, real income per head rises and the structure of the working force is altered in a way that increased the proportion of urban to total population and increases the numbers of white-collar and semi-skilled workers anxious to reap the consumption fruits of a mature economy. It is at this stage that resources are increasingly directed to the production of durable consumer goods and the diffusion of services on a mass basis. Additionally, certain societies such as Western societies choose to allocate increased resources to social security and welfare. Thus, the

> emergence of a welfare state characterises a society moving beyond technical maturity.
>
> At the turn of the century, the US tried to accommodate the first and third choices listed above. Only in the 1920s did the US determine to focus solely on the second choice. The automobile industry and household gadgetry were expanded and people were relocated to suburbia. These decisions prompted the emergence of new leading sectors as well as huge commitments to build new social overhead capital and commercial centres. As for the Britain and Western Europe, they decided to focus on providing social security and welfare to its people. Only in the 1930s, was Britain seen to make a shift into the age of high mass consumption with new leading sectors such as automobiles, suburban housing, and durable consumer goods taking firm hold.

According to Rostow (1960, p. 6), generally in modern history, preconditions do not happen endogenously but rather through external intrusion (be it literal or figurative). Such invasion transforms the traditional society. The society is 'willing to mobilise savings and to take risks in pursuit of profit or modernisation' (Rostow, 1960, p. 7). Most importantly, initiating the modernisation process requires an effective centralised national state that is able and willing to provide the conditions of growth. Specifically, government must dedicate a very high proportion of total investment into the build-up of social overhead capital. According to Rostow, the build-up of social overhead capital 'was necessary not merely to permit an economical national market to be created and to allow natural resources to be productively exploited, but also to permit the national government effectively to rule' (Rostow, 1959, p. 5).

Apart from the build-up of social overhead capital, agriculture technology must also be revolutionised so that the rapid increase of output is able to supply the needed capital for modernisation to take place (Rostow, 1960, p. 22). During the Preconditions for Take-off, there must also be an expansion in imports and possibly import of capital. According to Rostow, increased access to foreign exchange is

required for importation of goods or materials necessary for the development of industry. Rostow adds that the increase in foreign exchange would also help 'to preserve the level of real income while social overhead capital of long gestation period was being created' (Rostow, 1959, p. 5). Indeed, for Modernisation Theorists, one of the problems faced by 'Third World' or developing countries is generally the lack of capital (Rapley, 2007, p. 24). In certain countries, 'capital imports usually formed a high proportion of total investment in the preconditions period and sometimes even during the take-off itself, as in Russia and Canada during their pre-1914 railway booms' (Rostow, 1960, p. 8). On this basis, developing countries should welcome foreign capital.

Not only do the three key sectors of preconditions have to be developed, but the momentum must be maintained (Rostow, 1959, p. 7). After all the conditions have been fulfilled, a country would enter into its 'Take-off' phase. This is the most important stage for Rostow. During this phase, '[g]rowth becomes its normal condition' (Rostow, 1960, p. 7). Growth gives rise to an increase in income per capita, but this does not mean that the income would be uniform among countries or even between regions within a country (Rostow, 1959, p. 9). Despite this inequality, growth will subsequently lead to reduction in the level of poverty. Modernisation Theory argues 'that contact with the ''West'' and the international economy – will inevitably promote catch-up and development' (Kiely, 2007b, p. 434). In short, contact with the West can generate growth, which is arguably good to alleviate poverty and narrow the inequality gap.

Overall, there are two assumptions of Modernisation Theory that are related to the issue of catch-up. First, the development of social overhead capital, revolutionised agricultural technology as well as expansion in imports and possibly capital imports by national government are important to power take-off. Second, with the conditions for growth in place, income per capita is raised, which contributes to the reduction of poverty. As growth becomes a normal condition, it will eventually narrow the income inequality between developing countries and developed countries, albeit not having

uniform income per capita. In this way, catch-up with advanced industrialised countries is realised.

2.3 Propositions of Dependency Theory on the Idea of Catch-up

The emergence of the Dependency School was a response by Third World scholars towards Modernisation School led by the Americans. Social scientists such as Raul Prebisch were among the pioneer in formulating Dependency Theory, and the theory was later developed by other social scientists notably Theotonio Dos Santos, Samir Amin, Andre Gunder Frank, and Paul Baran. Dependency Theory comes in many forms in terms of their varieties of analytical approach and strategies to overcome dependency. Some scholars rely predominantly on Marxist political economy to explain Third World underdevelopment, while others focuses on structuralism, thus making the theory internally diverse. As such, some argues that it should not even be regarded as a theory since there are diverse approaches within the school. Nevertheless, it is clear that they do share some common ways of thinking about development and the school has contributed significantly to the critique of development strategies (Palma, 1981). One main thesis shared by dependency theorists is that 'the development of the metropolis was a result of the active underdevelopment of the non metropolis communities' (Matunhu, 2011, p. 69). In other words, underdevelopment of the Third World is conditioned by development in the West.

In 1950, when Prebisch was the executive director of the Economic Commission of Latin America (ECLA), he observed that the global economic system was divided into centre and periphery in which the former has greater bargaining power than the latter. The centre refers to the advanced capitalist states and periphery refers to developing countries which had a different social and economic history than the advanced states. He sees that the global economic system as characterised by peripheral countries producing primary goods for export to the centre, and the centre producing finished goods for export to the periphery. Such exchange causes

unfavourable terms of trade for primary producers such as Latin America as the prices for finished goods are higher than those for primary goods. Such a system works systematically to transfer capital from the periphery to the centre, thus depriving peripheries of economic development (Phillips, 2014, p. 348). The underdevelopment of developing countries and development of developed countries can be understood in the context of unequal exchange. As contended by Bernal (1980, p. 152), '[t]here is a transfer of value from underdeveloped countries to developed countries which is sufficiently large to cause development in the recipient countries and underdevelopment in the countries from which value is drained'.

Therefore (Joshi, 2005) believes that underdevelopment in Third World does not occur naturally but is a result of development in the West. Such structural symbiosis would continue to be a disadvantaged to Third World. According to So (1990, p. 262), the 'dependency school conceptualised the linkages between the Western countries and the Third World countries as a set of externally imposed, exploitative, dependent, economic relationships which was incompatible with development'. In other words, dependency theorists believe Third World countries were not underdeveloped at the start but became so due to the process of impoverishment by Western countries. This process of impoverishment happens through colonialism, imperialism or extractive terms of trade. Therefore, dependency theorists' advice to Third World countries is to move away from having intimate relationship with the West. By doing so, Third World countries are able to pursue an independent path of development far from the exploitative capitalism advocated by the West.

Some of the Dependency Theory's propositions were built largely through the observation of Latin America. During the Great Depression, Latin America which depended on the export of primary commodities saw a decline in export earnings because production is inelastic. Besides, Prebisch (1950, pp. 8-9) finds that in the 1930s, the same amount of primary goods exports would only cover the cost of a reduced amount of manufactured goods imports compared to the 1860s, showing that the exchange rate shifted to the disadvantage of peripheral countries producing

primary goods. Therefore, the periphery would need to export increasing amount of primary commodities in order to sustain the import of the same amount of manufactured goods over time. This is regarded as declining terms of trade[20] and as the root of developmental problem in Latin America. In the long run, Latin America's position in the global economic system and its capitalist economic policies causes problem of domestic capital accumulation (So, 1990, p. 93). It further complicates the situation when Latin America's dependence on industrial goods provided by advanced capitalist states reinforces its underdevelopment and inequality. Therefore, in the 1950s, Prebisch (1950, p. 6) promoted a new development strategy promoted through United Nations ECLA that are based on protectionism and industrialisation through import-substitution. The main strategy proposed by ECLA was that certain products should be produced domestically rather than imported. Prebisch believed that import substitution industrialisation could reduce the dependence of the periphery towards the centre. For this reason, unequal trade between them could be reduced and subsequently, the periphery is able to generate income for its own development (Prebisch, 1950, p. 53). Moreover, the government should take an active role to protect domestic industries from foreign competitors using tariff and other additional measures up to the point where they are competitive enough for open competition. Over time, Latin America should shift from being primary commodity-producers towards a more diversified economic structure.

The dependency approach advocated by Latin American scholars was quickly spread to English-speaking world by Andre Gunder Frank, particularly to North America. It was well-received in North America because it resonated with the sentiment of the people who had gone through the women liberation movement, anti-racist movement and anti-war protests in the late 1960s. Thus, Modernisation Theory's conception of development was largely phased out to be replaced by Dependency Theory. Dependency Theory was subsequently elaborated by Frank (1966) first in Monthly

[20] Terms of trade refers to the balance between the amounts of different commodities which can be traded with one another. If a country exports commodities which decline in value, its terms of trade with countries producing commodities with more stable or increasing value will decline, meaning it can import less with the income from the same level of exports.

Review, *The Development of Underdevelopment*, and a year later in his work, *Capitalism and Underdevelopment in Latin America*. Historically, most Third World countries had gone through colonialism which makes their experiences different from the Western countries. Such colonial experiences have restructured Third World countries including their development paths. According to Frank (1967, p. 27-28), backwardness or underdevelopment in the Third World is not attributable to their traditionalism or feudalism as espoused by Modernisation Theory. In fact, countries like China and India were quite advanced before the invasion of foreign forces in the 18th century (So, 1990, p. 96). If there was backwardness, it must be because of their relationships with other countries, and vice versa.

Building on the Marxist theory of imperialism, Frank (1966) captures the Third World's historical experiences with the concept of 'the development of underdevelopment'. He argues that ignorance has made us believe that the Third World is experiencing today what developed countries had gone through in their earlier developmental stages. He believes such ignorance or assumptions lead to a misconception in the study of development and underdevelopment. He argues that developed countries were never underdeveloped, although they may have been undeveloped (Frank, 1966, p. 18). From Frank's understanding of capitalism history, he found that the development and expansion of world capitalist system created both underdevelopment in satellites (peripheries) and development in metropolitan areas (cores/centres). Frank has described underdevelopment as 'the product of a single, but dialectically contradictory, economic structure and process of capitalism' (1967, p. 33). He goes on to argue that the thesis of his book is 'precisely that in a chainlike fashion the contradictions of expropriation-appropriation and metropolis-satellite polarisation totally penetrate the underdeveloped world creating an ''internal'' structure of underdevelopment' (Frank, 1967, p. 22).

Frank's (1967) unit of analysis is the relations between societies rather than individual societies. The interconnected relations form a world system and so the study of such system could clearly show the impacts it has for each individual

country (Friedmann & Wayne, 1977, p. 401). Therefore, Frank (1967, p. 27) conceives of a 'metropolis-satellite' model that can explain how contradictory capitalist system creates development and underdevelopment. There are three contradictions that are been highlighted in his work. First is the contradiction of expropriation/appropriation of economic surplus. Frank (1967, p. 31) observes that in Chile, economic surplus was being expropriated by the metropolis (America) for its own use. This monopoly capitalist structure continues to deprive Chile of having any substantial amount of surplus for any meaningful development, making it underdeveloped in the process of capitalist development. Second is the contradiction of metropolis-satellite polarisation. This contradiction remains the most important analysis for Frank. He explains that the capitalist system polarised countries into metropolitan centre and peripheral satellites. He believes such characteristic of capitalism enables the metropolis to have progress at the expense of the satellite's regression (Frank, 1967, pp. 32-33). Furthermore, a combination of the first and second contradictions, when rooted firmly, 'reinforces the processes of development in the increasingly dominant metropolis and underdevelopment in the ever more dependent satellites until they are resolved through the abandonment of capitalism by one or both interdependent' (Frank, 1967, p. 33). It is clear for Frank that capitalist development is not in any way conducive to progress. However, his view contradicts structuralists within Dependency Theory such as Prebisch, who advocates domestic, inward-directed capitalist development. Third is the contradiction of continuity of change. It is said that the capitalist system maintains its essential structure at all times yet is constantly changing. Frank (1967, p. 37), however, is more concerned with the continuity of capitalist structure rather than its changes.

In the period of colonialism, the metropolis-satellite structure was implanted to channel surpluses to metropoles. Not only did the metropolis-satellite contradiction arise between world capitalist metropolis and peripheral satellites, but it also penetrates within these countries among their regions, towns and sectors in a chain-like fashion connecting the uppermost world metropolitan centre to the most remote satellite (Frank, 1967, p. 34). Since this structure can expand even to national,

regional and local level, it can further deepen underdevelopment (Frank, 1966, 19). Hence, relatively few capitalists can expropriate a high level of economic surplus from the many below, without being expropriated by others above, allowing a core area to use the surplus for its development (Frank, 1967, p. 32). This complex web of relations is better comprehend through So's (1990, p. 97) words, 'as the national cities have become the satellites of the Western metropolises, so these satellites immediately become the colonial metropolises with respect to the provincial cities, which in turn have local cities as satellites surrounding them'.

This cyclical structure enables the optimal economic surpluses to be extracted to the cities in the advanced capitalist states. As such, even national and regional satellites would still have some development, because at the same time, they are also metropolises extracting other satellites' surplus. Their development, however, is limited. Only world metropolises, which are no one's satellites, could achieve development at its peak (Frank, 1966, p. 23). Moreover, such structural underdevelopment would persist even after colonies gain independence, such as in the case of Latin America (Frank, 1967, p. 22). Frank further argues that only socialism could eliminate such an entrenched structure of capitalism. Likewise, he finds that when satellites' ties to the metropolis are the weakest, they showed exceptional economic development (Frank, 1966, p. 24). With such findings, he concludes that the state of underdevelopment in the Third World is a historical product of the penetration of world capitalism (Frank, 1967, p. 33-34).

Frank (1966, p. 19) has also critiqued the proposition of 'dual' societies and economies which contends that the two are largely independent from each other. It has been said that there will only be one part of the economy and society that prospers due to its intimate economic relations with the 'outside' capitalist world. That said part will become a modern capitalist economy and society, and relatively more developed. Conversely, the other part is underdeveloped because it is more isolated and feudal (Frank, 1966, p. 18-19). Frank (1966, p. 19) believes policies that are informed by 'dual' society thesis could further aggravate the conditions of

underdevelopment simply because the thesis is flawed. He strongly asserts that the expansion of capitalism could penetrate even the most isolated parts of the underdeveloped world. Thus, both the modern and prosperous as well as the backward and feudal are products of the historical development of the capitalist system.

Three years later, Theotonio dos Santos (1970) continued the effort to expand Dependency Theory. His contributions include linking dependency to Marxian theory and his elaboration of three basic forms of dependence: colonial, financial-industrial, and technological-industrial. It was the discussion on technological-industrial dependence that brought about the new dependency studies in the subject of development. Dos Santos (1970, pp. 232-234) illustrates how technological-industrial dependence has caused underdeveloped countries to be structurally restrained in their industrial development. First, since dependent countries' main source of income comes from export, they need to maintain this traditional export sector to get foreign currency for the purchase of machineries to expand their industrial sector (pp. 232-233). As such, they maintain their pre-existing relations with national and foreign interests that control them economically and politically. Second, dependent countries usually have a deficit balance of payment due to the manipulation of monopolistic firms (p. 233). Big firms tend to lower the price of raw materials so that more profits could be gained from the sale of industrial goods. Moreover, with the advancement of technology, synthetic raw materials are likely to replace primary products, causing a trade deficit for dependent countries.

Dos Santos (1970, p. 233) also points out that the actual amount of capital that leaves the dependent countries is much more than the amount it receives. Looking at the period from 1946-1967, So (1990, p. 100) indicates that there was approximately USD 2.73 that left the dependent country for each dollar that was brought in. Hence without much surplus, there were limits to the importation of inputs for industrialisation. The deficit in balance of payment further required foreign financing often in the form of foreign capital and foreign aid. However, aid is substantially used

to reinforce North America's interest or to invest in sectors that are not in dependent countries' strategic interest. Third, industrial development is largely constrained by the technological monopoly held by advanced capitalist states (Dos, Santos, 1970, pp. 233-234). Often, technologies are patented by big firms, and to secure access to them would mean that dependent countries have to pay royalties or in other circumstances, big companies would convert machinery into capital and it thus becomes one form of their investment. In cases where dependent countries lack foreign currency to pay to the big firms, national bourgeois governments is obliged to open their economy to foreign capital. Dos Santos (1970, p. 232) argues that in such a situation,

> 'foreign capital enters with all the advantages: in many cases, it is given exemption from exchange controls for the importation of machinery; financing of sites for installation of industries is provided; government financing agencies facilitate industrialisation; loans are available from foreign and domestic banks, which prefer such clients; foreign aid often subsidises such investments and finances complementary public investments; after installation, high profits obtained in such favourable circumstances can be reinvested freely'.

The effect of such a dependent structure shapes a specified type of development – unequal and combined capitalist development that limits the growth of the internal market. The unequal and combined character of international capitalist development is reproduced acutely in underdeveloped economies (Dos Santos, 1970, p. 234). Such a productive system is torn between a traditional, low-technology sector and a modern sector that requires higher technology. Domestic wage-levels vary profoundly since technology and economic-financial development are mostly concentrated in large cities which are characterised by high exploitation of labour force and underutilisation of installed capacity. The exploited labour force has limited purchasing power and the capital-intensive sector produces only a few jobs which could affect the growth of domestic market of the consumer goods. Ultimately Dos

Santos' (1970) analysis has shown that the alleged backwardness of these economies comes from the way they are being integrated into the international capitalist system.

Therefore, taking Latin America as an example, Dos Santos (1970, p. 231) argues that in order to reduce the dependency of Latin America on developed countries, there is a need for a qualitative change in their internal structures as well as their external relations. It was exactly the relations of dependence that created an international and internal structure to keep Latin America underdeveloped. Dos Santos (1970) argues that dependence happens when 'some countries (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or negative effect on their immediate development' (Dos Santos, 1970, p. 231). Part of Dos Santos' (1970, p. 231) critique of capitalist development theory (Modernisation Theory) is their inadequacy to perceive external factors that contribute significantly to the state of underdevelopment in the Third World. In the process of integrating 'national economies' into one global economic system, capitalism has created an international division of labour in which developing countries specialise in the production of primary commodities and developed countries in manufactured goods. The advanced capitalist state tries to construct a fallacy that the developing countries can best produce raw materials and agricultural products because it is their comparative advantage. In that way, the advanced capitalist state, named the centre, obtains a continued supply of primary commodities for its industrial products, which has higher value. In turn, developing countries (peripheries) become a market absorbing most of the manufactured goods from the centre.

Dos Santos (1970, p. 231) argues 'that the relations produced by this market are unequal and combined − unequal because development of parts of the system occurs at the expense of other parts'. Such trade relations lead to the expropriation of the dependent countries' surplus by dominant countries. Additionally, the centres exports their capital to peripheries to generate profit. At the same time, the centre could also

benefit from the interest yielded by loans to the peripheries. In most cases, the loans are even used to buy developed countries' manufactured goods. It seems that dependent countries are inevitably trapped in disadvantaged trade relations. Since such relations carry away part of the surplus that is generated locally, the only way for dependent countries to survive is to generate large surpluses. However, this cannot be done by building up their technology, but rather by super-exploitation of workers. According to Dos Santos (1970), these factors put a limit on domestic market growth, technological and cultural capacity, and development of their people, which he refers to as 'combined development because it is a combination of these inequalities and the transfer of resources from the most backward and dependent sectors to the most advanced and dominant ones which explains the inequality, deepens it, and transforms it into a necessary and structural element of the world economy' (Dos Santos, 1970, p. 232).

In more recent literature, dependency theorists believe that among all the important relations of dependency, the penetration by multinational corporations remains the most important (Tausch, 2010, p. 470). Using study by Beer (1999), Tausch (2010, p. 470) argues that 'foreign investment in developing countries generates large sectoral disparities in the national economy, creating labour aristocracies and causing the underutilisation of indigenous labour'. The profits gained locally are repatriated by transnational corporations rather than being reinvested locally. Furthermore, government policies and strategies are devised to reduce the power of labour and hinder vertical social mobility. With such policies and strategies, income inequality is sure to increase dramatically which is in the interest of the benefiting groups, particularly transnational companies and national elites. Overall, there are two assumptions of Dependency Theory that are related to the issue of catch-up. First, China is predicted to suffer unfavourable terms of trade against the developed countries because of its position as a low value-added producer in the global economy. As a result, China will likely run trade deficits against developed countries in the long-term in order to maintain its import levels. Second, the relationship between core and periphery is characterised by the dependence of the latter towards

the former. Therefore, Dependency Theory expects underdevelopment as the outcome of peripheral countries being integrated into the global economy. On this basis, catch-up is not possible.

2.4 Propositions of the Theory of Uneven and Combined Development on the Idea of Catch-up

The definition of development by classical social theory is typically shaped by an internalist view, which limits their explanatory power according to the Theory of Uneven and Combined Development. The Theory of Uneven and Combined Development believes that historical processes are not unilinear as often propagated. Therefore, the internalist view is replaced by 'international' view advocated by the Theory of Uneven and Combined Development by presupposing there is multiplicity (Rosenberg, 2010, pp. 174-175; 2013, pp. 581-582). Essentially, there are two types of multiplicity according to Rosenberg (2013, p. 581): qualitative multiplicity of properties (variation) and quantitative multiplicity of being (multiple societies). This coexisting multiplicity is a result of unevenness in the history of development. The very first instances of unevenness in human history are nature-generated because humans' habitats are spread across different topography, ecology and climate.

According to Anievas & Nisancioglu (2015, p. 45), through the observation of Russian development, Trotsky tries to illustrate the interactive dimension of development in which social multiplicity would give rise to intersocietal interaction that results in societal difference. Each society will have its own particularities within the wider interactive intersocietal context, producing differential development. Also, unevenness gives rise to internal diffferentiation in many aspects within societies. The uneven relations between societies induced structural competitive conditions, 'the whip of external necessity', which Trotsky refers to the competitive pressures of its advanced Western neighbours towards the 'less-developed' Russia (Anievas & Nisancioglu, 2015, p. 45). These pressures were particularly intense during capitalism because capitalism 'simultaneously exerts equalising and fragmentary pressures on

social development' (Allinson & Anievas, 2010, p. 472). The fact that unevenly constituted countries do co-exist and interact with one another implies that 'their internal development is causally affected by their co-existence with each other' (Rosenberg, 2013, p. 585).

The challenges faced by Russia show that unevenness is an immanent feature of the developmental process. Therefore, feeling threatened by its rivals, the Tsarist regime had to resort to learning from the West. Its industrialisation based on military production had brought about the advanced forms of capitalism. As a result, Russian social development was so diverse that the traces of its English and French predecessors' capitalist development were nowhere to be found (Rosenberg, 2006, p. 309). Russia's privilege of backwardness allows her to substitute certain native elements with those of her advanced neighbours which necessarily produced newly combined and unstable forms (Anievas & Nisancioglu, 2015, pp. 49-50). These contradictions arise 'because of the unevenness of the developmental process, features appropriate to different historical period are combined in a single social formation' (Morton, 2010, p. 10). Therefore, the capitalistic elements 'were combined with traditional social forms of organisation in feudal Russia' (Bieler & Morton, 2014, p. 35).

Similarly, backward states such as China have the privilege of historic backwardness, which conveniently allows them to skip or bypass several developmental stages by appropriating the achievements already made by advanced neighbours within their existing social and material conditions. These conveniences save the 'less-developed' countries a lot of resources and time in their developmental process. However, Trotsky recognises that the process of leaping developmental stages would by no means happen automatically. It depends on the borrower societies' capacities as well as the 'historical timing' of when these societies are integrated into the global capitalism (Allinson & Anievas, 2010, p. 472). However, Linden (2007, p. 149) argues that the appropriation of the achievements made by the more developed societies 'not infrequently' resulted in a modified form of backwardness for the less

developed societies. Therefore, Bieler and Morton (2014) argue that while Chinese economic growth has been impressive but as it develops along the lines of uneven and combined development, there is still a huge developmental gap between China and the US. In their own words, 'developmental catch-up is the exception, while a continuation and extension of unevenness is the norm' (Bieler & Morton, 2014, p. 38).

As the reality reveals itself, not every late developer is able to transcend their historic backwardness through adaptation of the advancement made by others. It is because 'the transfer of social artefacts from one social setting into another can produce widely varying results' (Rosenberg, 2013, p. 585). Two possible consequences can arise from the transfer of social artefacts: one is the perfect transfer of the artefacts that allows late-developing societies to overtake the advanced societies, and the other is the possibility of the reduced quality of the artefacts during the transfer making it less likely to overtake the advanced societies (Rosenberg, 2013, p. 586). Developmental achievements are not infrequently debased to suit the less developed social structures (Allinson & Anievas, 2010, p. 472). Nevertheless, in both cases, there occurs a contraction of the advanced society's original development paths.

Davidson discusses the reasons why some backward societies are unable to transform to be as developed as the advanced societies. He believes that the vast differences between the backward and advanced social order are too great to overcome (Davidson, 2006a, p. 21). Most importantly, Davidson (2006b, p. 212) highlights the important role played by foreign capital and imported technology as well as 'limited geographical implantation of capitalist industry' that compels a country to undergo the process of uneven and combined development. It appears that uneven development is unable to explain the outcome of the interaction between the advanced capitalist world and the colonial or neo-colonial world. This was the turning point for Trotsky to move beyond uneven development to 'uneven and combined development'. As contended by Davidson (2006a, p. 23): 'The Theory of uneven and combined development explained what occurs when the same

‘‘overleaping’’ process takes place in the colonial or neo-colonial world, where it is impossible to fully ‘‘catch-up’’ with, let alone ‘‘overtake’’ the developed West, but to do so instead in a fragmentary or partial way’.

It appears that Davidson and Rosenberg may have different views on why some ‘less-developed’ countries may not be able to fully catch-up and overtake ‘more-developed’ countries. For Davidson (2006a, p. 21), it seems that the overwhelming differences between the two is hard to close, while Rosenberg argue that ‘the same artefacts might also be ‘‘debased’’ by the transfer’ (Rosenberg, 2013, p. 586). Despite the differences, they shared the same opinion that eventually, some backward societies would not be able to catch up and overtake the West - which lays down the law of combined development.

The interactive nature of the societies also means that the ‘less-developed’ countries do not simply reproduce the advancement of the ‘more-developed’ countries but create an entirely new ‘combined’ social formation, which takes on various forms (Anievas & Nisancioglu, 2015, p. 46 & 48). According to Trotsky, the combination gives rise to three-fold implications (Davidson, 2006a, pp. 22-23). First, the combination does not take any particular form, but rather produces a sociological amalgamation from melding the ‘native’ and ‘foreign’ and ‘backward’ and ‘advanced’ elements of societies. Every combination is unique and unstable in its own way (Davidson, 2006a, p. 22). It is, therefore, not possible to discuss an ideal-type of combination for any society (Anievas & Nisancioglu, 2015, p. 49).

Second, the instability of new formations also produces previously unknown conflicts. When the Tsar wanted to produce weapons using ‘manufacturing technology characteristic of monopoly capitalism….to defend a state characteristic of feudal absolutism’, the by-product that comes with it is a group of workers who are more skilful and politically conscious, not found earlier on in Russia (Davidson, 2006a, p. 22). Selwyn argues that late development generated its own tensions through the creation of new social forces that have become a new threat for states

attempting late industrialisation (Selwyn, 2011, p. 433). Third, Trotsky believes that we can see uneven development as occurring at the international level, but not combined development. It is because, quoting Davidson (2006a, p. 23), 'the significance of the process (combined development) is precisely the tensions and conflicts to which it gives rise within the territorial boundaries of particular states, not least because the state itself is a combined formation'.

Quoting directly from Rosenberg (2006, p. 319), the term 'combined development' put forth by Trotsky 'refers to the sociological outcome of international capitalist pressures on the internal development of non-capitalist societies – specifically the sociological ''amalgam'' (1971: 67) of capitalist and non-capitalist forms which resulted from these pressures'. Combined development is seen to be an intrinsic property of unevenness, and thus the theory was given the name, 'Uneven and Combined Development'. Rosenberg (2006, p. 319) believes the combined development phenomenon is not limited only to capitalist development, but has a more general existence. Combined development arises from the fact that different societies do not co-exist in a passive way, but are always interconnected and interactive through some sort of diplomacy (Rosenberg, 2006, p. 320). However, this thesis concurs with Ashman that Uneven and Combined Development is most usefully employed within the analysis of capitalist mode of production (Ashman, 2010, p. 194).

The logic of accumulation based on capitalism operates through competition and thus further intensifies the difference/unevenness between and within different states. Kiely (2012, p. 240) captures how capital accumulation within and between countries is an uneven and combined process. Kiely explains that in capitalism, enterprises always compete to search for surplus profit but the early innovators have 'locked in' advantages over late comers, which allow early innovators to 'accrue a disproportionate amount of the benefit'(Kiely, 2012, p. 241). Similarly, adoption of innovations or advances by backward states could no longer produce high returns as in advanced countries. Furthermore, capitalism created a single world market and a

unified international division of labour which further fuelled combined development. According to Ashman (2010, p. 194), '[t]he distinctive dynamic of capitalist relations and political forms create a world economy and international division of labour that incorporates some on a subordinate colonial basis and places historically unprecedented pressure on others to ''catch-up'''.

Only a few states such as Scotland are capable of catching up with the development of the advanced capitalist states (Davidson, 2006a, p. 21). States that are non-capitalist which have adopted capitalist mode of production (either voluntarily or non-voluntarily), but failed to adapt fully to capitalist modernity are bound to take the combination form. According to Davidson (2010), states that took the combination form are unable to attain the same level of development as the advanced capitalist states but are able to develop partially in certain areas. They experience a collision between the process of 'catch up and overtake' and 'blocked development'. As clearly expressed by Davidson (2009, p. 14), the group of states that embodied 'combination' are 'those unable to reproduce the level of development attained by the advanced capitalist states, but nevertheless able to ''unblock'' themselves to the extent of making partial advances in specific areas'.

Internationalisation of capital in the early twentieth century has further resulted in an increasingly entangled network of international interdependence (Bukharin, 1972, pp. 41-42, as cited in Teschke & Lacher, 2010, p. 36). Transnational capital would invest in core regions which would accelerate capital accumulation thereby exacerbating unevenness within and between regions (Kiely, 2007a, pp. 20 & 40). Therefore, within developing countries, there would be regions/sectors that are concentrated with capital which brings with it some advancement, while the rest of the economy remains less developed. This is the combination form which would take hold in developing countries. Since Chinese integration into the global economy is characterised by large inflows of FDI, the Theory of Uneven and Combined Development argues that Chinese development is also bound to take the combination form.

Capitalism in its fully developed forms ‘entails a structural separation between the economic and political aspects of social life’ (Rupert, 2010, p. 95). This basically means that the state must ensure there are sufficient economic activities by the capitalists to generate enough wealth to maintain the state’s legitimacy. It is, therefore, in the interest of the state to ensure that the process of accumulation is sound. Since capital is transnational, states do not infrequently use coercive power to maintain and provide conducive environments for the continual reproduction and accumulation of capital (Rupert, 2010, p. 95). For instance, states incorporate new areas into world market and create a large exploitable working class.

Samir Amin argues that the reproduction of capital during the era of monopoly capitalism since 1945 has taken another form. Capitalists no longer sees the integration of non-capitalist spaces as essential but sometimes incorporate new areas ‘through restructuring the way in which peripheral spaces are integrated within the global political economy’ (Bieler & Morton, 2014, p. 38). As a result, capital is poured into peripheral spaces, which can provide cheap labour costs. According to Bieler & Morton (2014, p. 39), Amin has pointed out three important structural changes which exacerbate uneven development in the current phase of capitalism: i) transnational capital operating on a world scale; ii) a shifted focus on the advancement of technology in ultra-modern branches of activity; and iii) the accumulation of technological knowledge in transnational corporations. The developing countries, thus, take over the role of producers of finished goods and cease to be only exporters of agricultural products. The new international division of labour has resulted in ‘sectoral unevenness in productivity’ between countries (Amin, 1976, pp. 215, 217-218).

Similarly, Bieler & Morton (2014, p. 36) have argued that capitalist expansion is being advanced through so called ‘free trade’ policies, which are instrumental in forcing other countries to open up their economies. Thus, ‘free trade’ policies have impacted on the overall processes of uneven and combined development. These

policies further caused developing countries to be 'locked into relations of unequal exchange, in which surplus is transferred from peripheral spaces to advanced capitalist spaces due to different productivity rates' (Bieler & Morton, 2014, p. 42). The recent trade liberalisation agenda has further widened unequal exchange to include the area of investment and services (Bieler & Morton, 2014, p. 42). This agenda further deepens the conditions of uneven and combined development.

The way in which developing countries are integrated into the world economy creates a combination of 'advanced' and 'backward' forms into a single social formation. This new and unstable formation can give rise to new social unrest previously not experienced in the country. Besides, capital is attracted to regions and industries that can yield more profit, which causes unevenness between regions and industries within the state. Thus, development in developing countries is uneven and combined. Overall, there are two assumptions of the Theory of Uneven and Combined Development that are related to the issue of catch-up. First, the way in which developing countries were brought into the single world market tends to cause increasing unevenness between them and more-developed countries, as well as stark unevenness between regions and sectors within the country. Such integration also produces a new combination by melding the 'advanced' and 'backward' elements of societies into a single unique formation. Second, as a result of their integration, developing countries can only enjoy fragmented or partial development. In this sense, catch-up is not possible.

2.5 Expectations of China's developmental outcomes

These three theories have different assumptions regarding China's catch up, which are assessed empirically in Chapter 4 and 5. Modernisation Theory believes that China can catch up if she emulates the developmental path of the Western nations. In particular, Modernisation Theory believes that contact with the West could help China achieve developmental catch-up. First, the Chinese national government must provide the conditions for growth to take place – the development of the three key

sectors. This includes a build-up of social overhead capital, revolutionised agricultural technology and expanded imports, possibly including capital imports. After these conditions were laid, the Chinese economy would automatically experience growth. As a result, income per capita of China would increase though it would not be uniform between China and other countries, or even within China. The resultant unevenness in income would be greater if there is also direct intervention by the Chinese state to allocate resources to specific sectors. However, as China develops, Modernisation Theory expects its income per capita to grow relatively equally in relation to developed countries.

Modernisation Theory also expects growth to contribute to the eradication of poverty as well as closing the income gap between societies. Therefore, in accordance with the assumptions of Modernisation Theory, China's catch-up could be assessed by first looking at whether Chinese government has developed the conditions for growth. Specifically, China's economy could take-off if there were high investments in building of social overhead capital, if agriculture technology has been revolutionised (i.e. mechanisation of agriculture) and if there was increased trade with other countries with the possibility of importation of capital. If it can be confirmed that these conditions have been developed, I can move on to identify if there is indeed income growth which leads to a reduction of poverty within China as well as a narrowing income gap with developed countries. The assessment would also determine China's current developmental stage. There is catch-up in China if she has completed the full transition to a modern society, i.e. reaching the last stage of the 'Age of High Mass-Consumption'.

By contrast, Dependency Theory argues that contact with developed countries will make China underdeveloped. This theory argues that China would not be able to catch up for two main reasons. First, peripheries such as China would undertake labour-intensive manufacturing production as a result of the relocation of transnational capital in search of higher profits. There would be enormous foreign investments flowing into China to take advantage of their cheap and abundant labour.

Despite the relocation of the manufacturing base to China, Dependency Theorists assert that China would not get much benefit as the profits generated would be repatriated to foreign companies' home countries. In fact, Dependency Theory would expect China to be impoverished by the exploitation carried by foreign capitalists. FDI would squeeze wages of locals and drain the country's natural resources. The workers' pay is low and they suffer long working hours. Therefore, prosperity of the developed countries is at the expense of China. By contrast, developed countries focus on high value-added production. As a result of unequal trade, China is expected to suffer unfavourable terms of trade against developed countries because of its position as a low value-added producer in the global economy. China would likely run trade deficits in the long-term in order to maintain its import levels.

Second, China is not able to catch up because of its dependent relationship to developed (or core) countries. As a periphery, China's position in the global capitalist system is highly vulnerable. Since China's economy is export-oriented, China depends heavily on developed countries' markets to absorb its produced goods. As such, China's growth relies on the well-being of the economies of these developed countries. Moreover, Dependency Theory expects China to become dependent on imported foreign technology. Huge sum of money are needed to import these technologies, which must be earned through exporting more goods. Dependency Theorists argue that China could not retain much of the profit from foreign investment because capitalists will repatriate capital back to their home countries. Therefore, the conditions for underdevelopment in China argued by Dependency Theory can be assessed by looking at China's capital accounts, particularly the outflow of capitals. Besides, Dependency Theory also argues that China would continually depend on imported foreign technology, which exhausts its savings. The predictions of dependence on developed countries could be assessed by looking at China's balance of trade as well as expenditures on the import of foreign technology. Exploitation of Chinese workers could be examined by assessing the wage of Chinese workers, their working hours as well as their labour rights.

The Theory of Uneven and Combined Development concurs much more with the prediction of Dependency Theory that China cannot catch up as a result of its integration into the global economy than with the predictions of Modernisation Theory. However, the Theory of Uneven and Combined Development is not as pessimistic as Dependency Theory as it does not argue that growth is not possible in the periphery. The Theory of Uneven and Combined Development suggests that the integration of China into the world economy through capitalist expansion would make her develop along uneven and combined lines. This means that China will have some forms of development but in a fragmented way. On this basis, catch-up is not possible.

The Theory of Uneven and Combined Development predicts that China will experience three forms of unevenness. First, there would be uneven levels of development between China and advanced industrialised countries. This means that it would not be possible for China to attain the same level of development as the advanced states. It could be the case that in certain areas, China is much more advanced than other states, but overall the scope of development is limited. Thus, China cannot catch up. Besides, the new international division of labour prompted developing states to specialise in comparative advantage. This further divides states and makes them uneven. Second, there would also be unevenness between different regions in China. This signifies that the level of development within regions would also be inherently different. Some regions would experience much more development, while others would fall behind. Most likely, this is caused by the concentration of capital in core areas that polarises the development of the regions. Third, there would also be unevenness between different sectors/industries. In the era where capital operates on a world scale, transnational companies move production to developing states such as China to lower the cost of production. Therefore, China would be expected to have new industries that expand at an amazing rate. Advanced technology would be introduced into this sector. In contrast, a traditional sector would remain in the country, operating with unsophisticated technology. As such, there would be unevenness between sectors in terms of productivity.

Moreover, the Theory of Uneven and Combined Development contends that China would experience combined development in two areas. First, China's productive forces would combine with development in the global economy. The Theory of Uneven and Combined Development argues that with cheap labour costs and abundant resources in China, it is expected that transnational company would relocate capital into China. As a result, China will have increasing FDI. At the same time, China would appropriate modern technology and new knowledge into its production processes, but still maintain some of its existing productive forces. However, when the emerging productive forces are incompatible with China's existing social relations, a new mode of production would be born. Therefore, at some point of development, modern industry would be discordant with the social production relations of traditional sectors in China. Second, the Theory of Uneven and Combined Development asserts that we should expect to observe a combination of traditional agriculture and other production forms within China. This combination would be unstable because it could alter existing social relations in China. It would give rise to new groups in Chinese society. Consequently, there would have conflicts previously unknown in China. As such, there would be major unrest in China. The Theory of Uneven and Combined Development argued that inequality would happen between China and other countries, and within China. The unevenness and combination propound by the Theory of Uneven and Combined Development could be assessed by situating Chinese production within the global economy. Specifically, the unevenness between China and advanced industrialised countries can be gauged by comparison of their level of development over time. The unevenness within China can be assessed by relying on the Gini coefficient. The combination that exists meanwhile could be assessed by identifying the structural characteristics of the Chinese economy.

2.6 Conclusion

Each theory makes different presuppositions or predictions of China's developmental outcome, particularly regarding the possibility of catch-up. This thesis aims to engage with rich empirical data informed by a conceptual framework to explain the process of change and the developmental outcome of China (see Chapters 4 and 5). Therefore, if Modernisation Theory is correct, the Chinese government is expected to provide conditions for growth to take place. As a result, there will be increased income per capita that would gradually converge with developed countries before it finally catches up. While the inequality gap is expected to close, this does not mean that there will be uniformity in income per capita between China and other countries and even among regions in China. Despite this, the rise in income per capita will help to eradicate poverty. On the other hand, if Dependency Theory is correct, China will be underdeveloped and is not expected to catch up due to exploitation by and dependence on the developed countries (core). Exploitation of workers will be observable. Also, the analysis is expected to find the dependence of China on developed countries, particularly on imports of advanced technology. In the long-term, China's savings would be exhausted, and this would make investing in indigenous technological development impossible. Lastly, if the Theory of Uneven and Combined Development is correct, China is also not expected to catch up, yet there were still be some development in an uneven and combined way. Therefore, China would still develop but unable to be as developed as the advanced capitalist states.

CHAPTER 3

CHINA'S MODEL OF DEVELOPMENT

3.1 Introduction

There are diverging opinions on what Chinese Development Model in International Political Economy literature is. On the one hand, scholar such as Huang (2008) argues that China has adopted 'Capitalism with Chinese characteristics'. On the other hand, Ford (2009) argues that China is a deformed workers state. The inconsistent opinions on Chinese Development Model arise because scholars assess the model using different methods. Ford's (2009) viewpoint was derived from historical understanding of how China was established in 1949, while Huang (2008) is concerned mainly on the general policies taken by the state. In order to make the task of identifying Chinese Development Model less complicated, it is useful to examine a closely related debate: 'Is China a capitalist state?' By addressing this question, it would narrow down the scope of the search for Chinese Development Model (see Chapter 6).

The objective of this chapter is to build conceptual framework which would inform the second key research question, 'What is the particular Development Model of China?' According to Mearsheimer & Waltz (2013, p. 431), theories were built with the assumptions that some factors matters most, while leaving out other factors that have less impact. This is important to provide a simple understanding of the complexity of the world. Furthermore, middle-range theories such as development theories allow us to 'focus on more narrowly defined phenomena' such as development (Mearsheimer & Waltz, 2013, p. 432). Therefore, in the attempt to search for Chinese Development Model, the next section discusses the assumptions of Modernisation Theory in relations to the development model they advocate. Equally, the arguments of Developmental State Theory in relation to the development model are discussed in the following section. Next section moves on to understand the

specific expectations of these theories on Chinese Development Model before proceeding to the conclusion. In short, Modernisation Theory believes China is adopting Free-Market Development Model based on the West whereas Developmental State Theory argues that it is based on State-led Development Model akin to classical developmental states in East Asia.

3.2 Propositions of Modernisation Theory on Free-market Development Model

The basic idea of Modernisation Theory is that countries would develop in a linear fashion. After the Second World War, the modernisation path taken by the West was very successful with the US rising as an international hegemon leading the World. During the same period, newly independent states and some other states termed 'Third World' were still struggling with their economies. Initially, the term 'Third World' refers to countries that are not aligned to either capitalism or socialism. Over time, it came to refer to all developing countries, regardless of its ideology (Rapley, 1997, p. 10). The need for development in 'Third World' encouraged the vigorous growth of Modernisation Theory. Modernisation Theory believes that development for developing countries could be achieved through 'imitation' of the developmental path taken by the West. As such, Third World could be transformed into a modern society or be developed if they adopted similar economic and social structures to the West (Cao, 2014, p. 8). Modernisation Theory tries to emphasise that all society has 'an original stage of backwardness' (Hettne, 1982, p. 32).

The vigorous growth of Modernisation Theory occurred in the period of time where many spoke about the end of ideology. 'Everyone agreed that market economies, harnessed to an interventionist state, were the wave of the future, that left and right had met up and become one' (Rapley, 2007, p. 25). In parallel to Modernisation Theory, Rostow has also argued for the need for an effective national government to lead changes (transform to modernity), but this idea did not receive much attention (Rostow, 1960, p. 8). Therefore, apart from espousing a market economy,

modernisation theory also believes in state intervention in the economy. This form of state intervention is one that intends to promote market forces rather than dictating market forces. Rostow argues that during the pre-conditions to take-off, it requires 'a national government capable not only of providing a setting of peaceful order which encouraged the new modernising activities but also capable and willing to take a degree of direct responsibility for the build-up of social overhead capital (including its finance); for an appropriate trade policy' (Rostow, 1959, p. 5). The appropriate trade policy advocated by Rostow (1959, p. 5) is one that would push for expansion of imports, possibly including capital imports. On this basis, the first assumption of Modernisation Theory is that there must be a willing and capable national government that leads the transformation of the economy through the adoption of market-friendly policies.

The argument of Modernisation Theory 'was one that suggested Western investment, growth, technology and cultural values would allow a process of modernisation which would ensure that countries remained part of the liberal capitalist world' (Kiely, 2016, p. 25). Rostow (1960) believes that all societies, meaning nation states, would move through five similar developmental stages. The careful illustration by Rostow of Western industrialised countries' developmental trajectories was intended to demonstrate the process of change and the response developing countries should undertake in order to achieve similar levels of development to the advanced industrialised countries. The five stages are the 'Traditional Society', the 'Preconditions for Take-off', the 'Take-Off', the 'Drive to Maturity', and the 'Age of High Mass-Consumption'. The first phase, the 'Traditional Society', has a limit to the level of attainable output per head because of the constraint on productivity (Rostow, 1960, p. 4). The limits of production meant that traditional society has to rely predominantly on agricultural production, which requires large working forces and resources (Rostow, 1960, p. 5). During the second stage, the traditional society has gradually evolved. This enables agricultural productivity to soar, and a more sophisticated technology to be created. This stage is called the 'Pre-conditions for Take-off'.

After the preconditions have been fulfilled, this stage will be followed by the 'Take-off' stage, which is the most important phase. In this period, all the obstacles to economic development have been finally removed (Rostow, 1960, p. 7). At the take-off, 'the share of net investment and saving in national income rises from five percent to ten percent or more, resulting in a process of industrialisation, where certain sectors assume a leading role' (Hettne, 1982, p. 31). In the fourth stage, as the society spends approximately 10-20 percent of its national income on technology, new leading sectors emerge. When society is able to move beyond the industry that powered its take-off, maturity is attained (Rostow, 1960, pp. 9-10). This maturity changes the structure and quality of working forces. When a society attains the consumption stage, the demands of the society also change. Rostow (1959, p. 11) argues that there are three possible scenarios of a high mass-consumption society. First, there would be increasing social security and welfare for the workers. Second, it would provide enlarged private consumptions on a mass basis. Finally, it would enlarge the influence of the mature nation in the international arena[21].

Within the context that Rostow wrote his book, *The Stages of Economic Growth*, Rostow argues that only through embracing Western values, could the 'Third World' develop. Rostow promoted the idea that a free-market policy is the remedy for the development of backward economies (Solivet, 2005, p. 723). In line with the core argument of Modernisation Theory, contact with the West is taken to be very favourable to the development of the 'Third World' (Kiely, 2015, p. 176). Modernisation Theory contends that development in the 'Third World' could be expedited with the help of the West. The West could help 'by sharing its capital and know-how, to bring these countries into the modern age of capitalism and liberal democracy' (Rapley, 2007, pp. 24-25).

As such, Rapley argues that Rostow is optimistic that the trade with, and the aid and investment received from advanced capitalist states could accelerate the transition of

[21] For a detailed explanation of Rostow's five developmental stages, please see Chapter 2.

developing countries to advanced society (Rapley, 1997, p. 16). Indeed, in his speech to Seoul National University, Rostow applauded South Korea for not erecting high tariffs that would stifle competition in manufacturing sectors (Rostow, 2003, p. 371). This implies that market forces are important for the development of competitive industries in developing countries. For a successful take-off, Rostow advises South Korea to bring in foreign enterprises that could contribute not only capital but also skills and technology (Rostow, 2003, p. 371). In this sense, only through market openness could developing countries increase the interaction with advanced capitalist states that would in turn be beneficial for its development.

Applying Modernisation Theory in the context of the dominance of neoliberal ideas, it could be argued that countries should develop through embracing the world market and market forces (Kiely, 2005, p. 905). In explaining the concentration of capital in the developed countries, Modernisation Theory as well as contemporary neoliberalism believe that 'some countries have not adopted sufficiently market-friendly policies that can tap into the benefits of the world economy' (Kiely, 2005, p. 905). In this sense, countries should adopt pro-globalisation policies. This means that developing countries must ensure there is sufficient market openness to derive the benefits of the global economy. Increasing integration into the world economy is good for developing countries. Therefore, apart from a state that pushes for openness of the market through market-friendly policies, developing countries must be committed to full liberalisation of their economies. This forms the second assumption of Modernisation Theory.

Overall, this development model believes that increasing the openness of the economy will produce development for developing countries and subsequently allow them to catch up with advanced industrialised countries. There are two main assumptions of Modernisation Theory with regard to the Western Development Model or Free-Market Development Model. First, apart from building conditions for growth to take place, a capable and willing national government must push for openness of the economy through market-friendly policies. Second, developing

countries should seek further integration into the world economy by pursuing full liberalisation of its economy.

3.3 Propositions of Developmental State Theory on State-led Development Model

In discussing Developmental State Theory, first of all, it is important to distinguish between a model, a concept and a theory. Certain scholars refers to developmental state as a concept (Johnson, 1999; Wu, 2007), a theory (Bolesta, 2007; Woo-Cumings, 1999) or a development model (Boltho & Weber, 2009; Weiss, 2000; Johnson, 1999; Onis, 1991). Chalmers Johnson (1982) in his book, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* has documented the relations between Japanese state interventionist policies with its phenomenal growth, which was the inception of the concept of developmental state. Over years, scholars such as Amsden (1989) and Wade (1990) used South Korea and Taiwan respectively as case studies to test upon Johnson's original formulation. Their studies confirm that the concept of developmental state proposed by Johnson (1982) has great explanatory power in explaining East Asian industrialisation. Therefore, in later years, due to the strong explanatory power of the concept of developmental state envisaged by Johnson, it has been acknowledged as a theory by scholars working in the field of development (Bolesta, 2007, p. 105). Besides, recent literature that engages with Developmental State Theory in its analysis has affirmed its strength as a theory to explain East Asian development (Gray, 2001, p. 578; Bolesta, 2007, p. 106).

The idea of 'capitalist development state' envisaged by Chalmers Johnson was derived from his observations on how the Japanese economic bureaucracy works, particularly the pilot agency, the Ministry of International Trade and Industry (MITI). His main purpose is to identify the difference between Anglo-American capitalist economies and Japanese 'alternative capitalism' (Johnson, 1999, p. 32). Initially, Johnson (1999, pp. 33-34) 'invoked the concept of ''developmental state'' to characterise the role the Japanese state played in Japan's extraordinary and

unexpected postwar enrichment'. In a case where a state is late to industrialise, the industrialisation process is driven by state that took on *developmental* functions (Johnson, 1982, p. 19). Government would set clear social and economic goals that would be advanced through the state bureaucracy. When formulating economic policies, industrial policy will take precedence over other policies (Johnson, 1982, p. 19).

The first non-Western nation to become developed is Japan. As early as the Meiji era, the Japanese economy was seen as state-led (Tsukamoto, 2012, p. 74). Khosla (2000, p. 46) contends that the perceived threats to Japanese sovereignty had given rise to economic nationalism that spurred the government to build 'a strong and rich country'. Many leading sectors were promoted through government investment as well as many other type of assistance (Imagawa, 1993, p. 35). Many protective policies continued well into the 1950s and 1960s such as import protection (Ohno, 2006, p. 175). The Japanese state devised an industrial policy that aims to shift resources to specific sectors. Targeted industries were being protected and nurtured to become internationally competitive. Selections of the key industries by the state were based on their income elasticity and their potential productivity (Ohno, 2006, p. 172). The preferential treatment given to selected industries was often tied to their performance. Firms that performed well would be rewarded and vice versa (Pempel, 1999, p. 173). Thus, the state would not bail out firms in profitable industries that lose out due to bad management (Onis, 1991, p. 12). It must be remembered that state intervention was, however, limited to priority sectors. The rest of the sectors were freely exposed to the rigours of market competition. Selectivity is the key word in industrial policy. In a way, the rest of the economy does comply with market forces.

A strong state role is also evident in terms of investment. In Japan, there were high levels of fixed investment directly prompted by public investment provisions which in turn attracted private sector capital formation. There were also massive domestic savings boosted through exports that indirectly helped investment (Boltho & Weber, 2009, p. 269). Besides, the state also invested heavily in infrastructures that could

provide conducive environment for business activities to take place (Khosla, 2000, p. 47). Through the 1950s and into the 1960s, the Japanese state restricted the flows of capital and trade (Ohno, 2006, p. 168). There were more restrictions on FDI in South Korea and Japan than in Taiwan. The reason behind was to create favourable conditions for the domestic markets (Khosla, 2000, p. 49).

At the same time, the state also tried to promote exports through various mechanisms such as subsidies. In the 1950s, Japan moved to promote exports from heavy industries. New firms were able to enter into the protected sectors which yielded exceptionally high profits. In addition, there was a pilot agency named MITI that was entrusted with the responsibility of directing the course of development. Moreover, state controls over domestic savings enabled it to provide cheap credit to key industries (Beeson, 2004, p. 31). According to Pempel (1999, p. 150), Japanese companies were much more easily manoeuvred by the state because the capital and interest rate were under the control of the state especially in the 1960s and 1970s.

Similar to Japan, the South Korean economy was also state-led. Under the Park regime, the South Korean state worked to select and promote potential industrial sectors. The industrial base was restructured and by the early 1970s, the South Korean government has shifted its focus from light manufacturing to heavy and chemical industries partly due to geopolitical factors (Minns, 2001, p. 1027). The state also regulated inflows of FDI. The South Korean government ensured that the industrial base of the economy would remain in the hands of South Koreans. According to Minns (2001, p. 1027), the majority of the FDI from 1966 onwards was limited to export-oriented and heavy and chemical industry sectors. Besides, the maximum equity that a foreigner can hold is set at 50 percent. Only in places such as Free Export Zones (FEZs) could foreigners own 100 percent of the equity. Exports were very much favoured under the Park government. The state set export targets for larger firms, which were obliged to meet them. Like other developmental states, the mobilisation of capital was usually under tight government control (Levi-faur, 1998, p. 73). This coerced private businesses to comply with the state's goals.

Support given to private business worked quite differently in South Korea. The state not only rewarded those who adhered to state plans and performed well, but also punished those who did not. Since the only available credit to South Korean firms was said to be from the government, the threat to withdraw their finance was deemed serious. Some of the companies which were penalised included Asia Motors, which went bankrupt, and the Taihan group, where their consumer electronics division failed to perform and was transferred to Daewoo Electronics (Minns, 2001, p. 1029). The strict discipline that the state imposed on private businesses aimed to ensure that the South Korean enterprises would be internationally competitive. It should be noted that support from the state to industries was also time-limited (Kasahara, 2013, p. 4).

Another example of classical developmental states is Taiwan. Until the late 1980s, Taiwan had been ruled by an authoritarian regime under the Kuomintang (KMT) party. The KMT government realised their hopes to retake the mainland diminished with time. Hence their attention turned to developing Taiwan. Since the KMT government gained power without the direct consent of its people, economic performance and inclusion of Taiwanese into the party became the main source of their legitimation (Wan, 2008, p. 32). The KMT government then embarked on reforming the economy. The reforms increased agricultural productivity, which subsequently provided capital for investment. It also meant that a lesser labour force was needed in the agriculture sector, prompting a shift in labour to the industrial sector (Přibyla, 2011, p. 61). According to Hsiao (1993, p. 148), the land reform policy created the first indigenous capitalists in Taiwan. In later years, the Taiwanese economic boom was led by small and medium-sized firms in the manufacturing sector first through an import substitution strategy, then an export-led strategy (Budd, 2004, p. 52). SOEs have a monopoly in strategic and key sectors because of the priorities given to them by the state (Hsiao, 1993, p. 151).

There is strong evidence to support the claim that Taiwanese industrialisation was attributable to the strong state role. It was the state which decided the allocation of

resources to both private and government enterprises (Ho, 1987, p. 244). Particularly in the economic take-off in the 1960s, Rodrik, Grossman & Norman (1995, p. 57) argues that growth was a result of an investment boom steered by the state. Taiwan's automobile industry was one of the sectors that received considerable state protection from foreign competitors. The state declared its plan to protect domestic car makers and automobile parts makers, and there were import restrictions for products in this sector (Arnold, 1989, p. 186). This argument is also backed by Feenstra & Hamilton (2006, p. 177) who observed the top-down transformation of the Taiwanese economy in which in the 1950s, around 50 percent of the total industrial production was state-owned. The state and party-owned enterprises dominated key and strategic sectors, which implied that Taiwan's development was very much directed by the state (Hsiao, 1993, p. 151). Furthermore, the authoritarian system forced the conformity of private businesses to the state's industrial policies (Chen, 2011, p. 1). Apart from planning the economy, the state believed that it is important to control the means to develop the economy – capital. Therefore, financial institutions in Taiwan were under the tight control of the state. This allowed the state to accumulate domestic savings, which were later used to finance its domestic capital formation.

Each developmental state possessed certain characteristics, which sometimes complemented one another, but at times were unique in each case. Therefore, Developmental State Theorists try to produce a set of general characteristics of developmental states, which would form the main assumptions of the theory. As a result, there were various features highlighted by scholars in their observation of developmental states, which at times were different from one another. Bolesta (2007, p. 109) came up with five characteristics of a developmental state. First, the state's objective is to achieve rapid socio-economic development. Second, this objective is realised through the process of industrialisation. Third, strategy and goals are drafted by the political elite but state transformation is facilitated by an effective bureaucracy. In contrast with the cases of Mexico and Brazil, a developmental state's elite bureaucracy is largely independent from democratic choices of the society since normally a developmental state is authoritarian in nature. Fourth, the state determines

the directions of development in the institutional environment. Since most economies of developmental states are export-driven, the states must adhere to international conditionalities and place themselves strategically in the global economy. Such tasks could only be achieved through the leadership of a strong state, which is able to influence development directions. Fifth, the state is interventionist in nature but the economy is capitalistic. Therefore, the private sector plays a vital role in the development process of a developmental state.

Kim (2009, p. 384) summarised the central arguments of developmental state theory as follows. First, there must be a transformative industrial policy that would enable the economy to swiftly shift from import-substitution industrialisation to export-oriented industrialisation. Second, the state must have a strong capacity to carry out and maintain 'big push' programmes. State autonomy from society is also important to avoid serving particular group interests. Kim (2009, p. 384) believes that 'state capacity and insulation are two pillars of state autonomy, and usually they are embodied in a bureaucratic nodal agency that can co-ordinate industrial policies'. Third, state is also embedded in the society. There exists 'a tight network of informal institutional linkages between economic planners in the state and business sectors in the society' (Kim, 2009, p. 384). Such embeddedness allows the state to adopt an industrial policy that could bring optimal result for those involved. There is little merit to debating the significance of impact of industrial policies on the positive outcomes of East Asian growth. Nevertheless, Boltho & Weber (2009, p. 269) acknowledge its relevant role as an important component of the model.

Onis's (1991) contributions in synthesising the different aspects of the developmental state is acknowledged by Johnson (1999, p. 36), making Onis's work much more significant in the existing literature. Building on from the work of Johnson (1982), Onis concludes that there are three elements of the classical developmental states: 'They are the single-minded adherence to growth and competitiveness at the expense of other objectives, the unusual degree of bureaucratic autonomy and capacity, and the equally unique and unusual degree of public-private cooperation' (Onis, 1991, p.

120). Elaborating on the first element, Onis explains that a developmental state will single-mindedly pursue economic development, which is defined 'in terms of growth, productivity, and competitiveness' (Onis, 1991, p. 111). A meritocractic system of recruitment is established to ensure that capable bureaucrats are selected to carry out the task of economic development. Often, the political system in developmental states are authoritarian in nature, which gives bureaucrats the autonomy to formulate and implement policies. Moreover, close institutionalised links between the state and private businesses are essential in the pursuit of the single objective of economic development.

Linda Weiss (2000) also points out three elements of developmental states, which are very similar to the one propounded by Onis. Weiss (2000, p. 23) distinguished three criteria from the observation of classical developmental states: 1) their priorities which have transformative goals; 2) their organisational arrangements which include a relatively autonomous pilot agency; and 3) their institutional links with organised economic actors which focus on cooperation between government and economic sectors or business associations. In elaborating the first element outlined by Weiss, Fritz & Menocal (2007) contend that developmental states must have the capacity to bring positive transformation to the society and in East Asia, these states aimed to bring economic development (Fritz & Menocal, 2007, p. 533). Bolesta (2007, p. 106) argues that state interventionism does not hinder socio-economic development as neoliberals argue. Instead, he believes that precise intervention supports a particular developmental trajectory. This idea is also echoed by Onis (1991) who contends that 'a high degree of government intervention has occurred to distort relative prices so that the desired levels of investment could materialise in the strategic sectors' (p. 112). However, once catch-up has materialised, the developmental states face the problem of defining the direction of future development (Wu, 2007, p. 987).

The tenets put forth by Bolesta (2007) are relevant for developmental states, but are also too general to be treated as features of developmental state. For example, Bolesta (2007, p. 109) emphasises that the strategy of pursuing socio-economic development

through industrialisation process is also an important argument from the perspective of Modernisation Theory. In addition, from the discussion of the historical record of Japan, South Korea, and Taiwan, there is no specific emphasis on industrial policy that would allow the rapid transformation from import-substitution industrialisation to export-oriented industrialisation as claimed by Kim (2009, p. 384). In fact, there is no emphasis on specific policy tools that should be followed by developmental states to achieve rapid growth since their economic goals would evolve over time. According to Wade (1990, p. 78), the main aim of sectoral policies is 'to change production and/or investment decisions in a particular industry from what they would have been without the policies'. Therefore, this thesis finds that the three shared elements raised by Onis (1991), which was acknowledged by Johnson (1999, p. 36), and Weiss (2000) were in line with the historical development experience of Japan, South Korea, and Taiwan. These three elements in turn formed the three main assumptions of Developmental State Theory.

The first assumption of Developmental State Theory is that a developmental state single-mindedly promotes economic development through sectoral industrial policies that boost investment. There is, however, a misconception that economic development refers only to economic growth. Onis (1991, p. 111) maintains that it also refers to increasing productivity and external competitiveness. Developmental states will advance this national goal through industrial policies that boost investment as well as protect and subsidise *selected* industries from external competition. While certain industries are being protected, the state often adheres to a free-market regime in other sectors, and non-selected industries are exposed to international competitive pressure (Onis, 1991, p. 124). On Wade's (1990) account of the Taiwanese trade regime, it was found that the trade regime is dualistic in nature. Wade observes that export-related production has operated close enough to free trade, but domestic market-related production is protected (Wade, 1990, p. 113). Developmental State Theorists assert that successful industries are not born naturally but are a result of government positive intervention. They further argue that competitive advantages can be created by the government (Boltho & Weber, 2009, p. 274; Ju, 2000, p. 106).

The second assumption is that state must have a strong capacity and autonomy to determine the course of development. Moreover, the political regimes in East Asian states such as South Korea and Taiwan are examples of authoritarian corporatism, which is a combination of two concepts (authoritarian and corporatist) in political science. The first concept means that the rulers are chosen by a process that provides little space for people to express their sentiments. In a corporatist system, the state creates 'a small number of interest groups, giving them a monopoly of representation of occupational interests in return for which it claims the right to monitor them in order to discourage the expression of ''narrow'', conflictual demands' (Wade, 1990, p. 27). Japan is neither democratic corporatism like Europe (Onis, 1991, 119) nor authoritarian corporatism like Korea and Taiwan (Wade, 1990, p. 27). Japan is corporatism combined with rules of selecting rulers which falls in between democratic and authoritarian, which Johnson (1982) refers to as 'soft authoritarian' (as cited in Wade, 1990, p. 27). In other words, a developmental state is authoritarian in nature, although this trait varies in strength. The politicians are aided by a small-scale elite bureaucracy chosen through a meritocratic system and can implement industrial policies autonomously (Wu, 2004, p. 93).

The third assumption is that there is close cooperation between state and private businesses to advance national goals. Developmental state theorists assert that East Asian development is 'a result of a highly effective form of coordination between government and business, whereby credit was channelled towards industries that were considered to have positive growth and export potential' (Gray, 2011, p. 578). State and private businesses' interaction and cooperation is important to translate national goals into effective policy action. Cooperation between state and private businesses is shaped by the dependence of the latter on the former. Various policy instruments are used by East Asian states to induce private enterprises to follow state orders. State monopoly and control over the financial system compels business elites to comply with the requirements of strategic industrial policy (Onis, 1991, p. 116). Nonetheless, state capacity also relies on institutional and organisational links with

private businesses (Wu, 2004, p. 92). Diversified institutional forms enable effective information exchange between state and private businesses (Kasahara, 2013, p. 5). Since these three arguments were derived from the experiences of the typical Developmental States – Japan, South Korea and Taiwan, and also from the existing literature they undoubtedly form the most basic assumptions of Developmental State Theory.

Overall, the state-led development model espoused by Developmental State Theory believes that state intervention in the allocation of resources to specific sectors/industries can produce development for developing countries. The targeted sectors/industries are protected from competition (but are often export-oriented), and the rest of the economy remains exposed to the rigour of the market. Subsequently, these strategies will allow developing countries to catch up with advanced industrialised countries. There are three main assumptions of Developmental State Theory with regard to the 'alternative capitalism' or state-led development model. First, the state single-mindedly promotes economic development through sectoral industrial policies that boost investment. Second, the state must have strong capacity and autonomy to determine the course of development, aided by capable bureaucrats. Third, there are close institutionalised links between the state and private businesses that help in the pursuit of a single goal of economic development.

3.4 Expectations of Chinese development model

The two theories have different predictions regarding the Chinese development model. Modernisation Theory argues that China is emulating the Western development model. The Western development model is constantly being referred to as Free-market Development Model. Modernisation Theory believes in market-friendly intervention by the state. In that sense, the theory suggests that a Chinese state that has a firm belief in modernising the economy would provide conditions for growth to take place as well as adopt market-friendly policies. Market-friendly policies include lowering barriers to trade as well as welcoming foreign capital. The

result would be increased trade relations with foreign countries as well as massive inflows of foreign investment. Furthermore, Modernisation Theory also expects China to pursue full liberalisation of its economy. This would include liberalisation of its financial sector which is still largely off-limits to foreign investors. As a result, foreign investors would be able to invest according to their inclinations.

In contrast, Developmental State Theory argues that China's development model is based on a State-led Development Model. This development model is different from the one proposed by the West. In fact, the reason this theory was born is to contrast Anglo-American capitalist economies with Japanese 'alternative capitalism' (Johnson, 1999, p. 32). First, Developmental State Theory expects that the Chinese government would be actively pursuing economic development above other goals. Consequently, most policies are designed with the aim to maximise economic development. Social or welfare policy is secondary in the national goals. As such, the Chinese government would not be concerned about social issues such as equality. The most perceivable effort to pursue economic development would be the formulation and implementation of sectoral industrial policies. The Chinese government would identify key industries based on their income elasticity and potential productivity. Selected key industries (often export-oriented) would receive support from Chinese government through various protectionist policies. However, China would only protect or subside these selected industries, and other industries would be exposed to the rigours of the world market.

Second, the Chinese state is expected to have the capacity and autonomy to steer the direction of development, aided by capable bureaucrats selected through meritocratic system. Developmental State Theory also expects China to have control over the resources that endow her with the capacity to command the economy. According to Developmental State Theory, China does not necessarily need to subsume the interests of various competing groups in the process of decision-making. Third, Developmental State Theory also expects close relationship between the state and private businesses. This relationship is important to advance the national goal of

development. In China, there are times when a conflict of interest or friction between Chinese government and private businesses occurs. However, Developmental State Theory contends that the reliance of private businesses on vital resources that are controlled by Chinese government could help resolve such frictions. Therefore, the private sector is induced to cooperate with the Chinese government.

3.5 Conclusion

Both Modernisation Theory and Developmental State Theory believe that China has adopted their development model. Modernisation Theory argues that Chinese economic development and its potential for developmental catch-up (see Chapter 4 and 5) owed much to its Free-market Development Model. On the other hand, Developmental State Theory believes that it was the adoption of 'alternative capitalism' based on the State-led Development Model that had contributed most to the outcome. Therefore, if Modernisation Theory is correct, China is emulating the Western development model or Free-market Development model that emphasises market-friendly state-intervention. The Chinese state is believed to have adopted market-friendly policies and will eventually push for full liberalisation of the economy. In contrast, if Developmental State Theory is correct, the Chinese development model is one that is based on a strong state role that dictates the market direction. First, the Chinese government is expected to prioritise economic development above other goals. The Chinese government would pursue industrial policies that promote and protect targeted industries from external competition as well as adopting policies that would ensure a high level of investment in the country. Besides, I would also find the Chinese leadership to have strong capacity and autonomy to dictate the development path while aided by an autonomous elite bureaucracy that has the responsibility to formulate and implement industrial policies. Lastly, China would have close state and private business relations in which private actors will work together with the state to achieve the single goal of economic development. These predictions regarding the Chinese economic development model are assessed thoroughly in Chapter 7.

CHAPTER 4

ASSESSING ECONOMIC DEVELOPMENT IN CHINA: MODERNISATION VERSUS DEPENDENCY THEORY

4.1 Introduction

The aim of this chapter is to explore the first research sub-question, 'Is there economic development in China?' The main study period for this thesis is the post-reform era, but this chapter will also touch on the policies of the government prior to reform. This is because Modernisation Theory argues, as discussed in Chapter 2, that pre-conditions to take-off must be fulfilled before China could achieve economic development. In order to assess this assumption, there is a need to examine the pre-reform economic conditions in this chapter. As discussed, Dependency Theory believes that integration into the global capitalist economy would make China underdeveloped (see Chapter 2). On the other hand, as discussed in Chapter 2, Modernisation Theory maintains that there has been economic development as a result of China's integration into the world economy. Such differing positions are examined by gathering and analysing empirical data obtained from numerous sources. This chapter first looks at the definition of economic development, which is applied throughout this thesis.

The concept of economic development evolves over the years as economic policy goals changes (see Chapter 1). One definition of economic development that is popular with non-Marxist scholars is 'the process whereby the real per capita income of a country increases over a long period of time – subject to the stipulations that the number below an ''absolute poverty line'' does not become more unequal' (Meier, 1976, p. 6, as quoted in Barbier, 1987, p. 101). Similarly, Nafziger (2006) offers a simple definition of economic development. According to Nafziger (2006, p. 15),

'economic development refers to economic growth accompanied by changes in output distribution and economic structure'. More specifically, 'economic development implies more output and changes in the technical and institutional arrangement by which it is produced and distributed' (Sable, 2017, p. 1). There are quantitative and qualitative dimension to this definition. The quantitative dimension relates to economic accumulation or growth while the qualitative dimension relates to technological and institutional change. Therefore, the idea of economic development is more than just economic growth and also encompasses structural change.

Conflating these definitions, this thesis argues that economic development is inclusive of economic growth, productivity and competitiveness. These core components often influence changes in economic structure, and are important as the basis for an analysis of the economic development of a country. I look at the two measures of economic growth, GDP and Gross National Income (GNI). Other relevant indicators of economic growth including income level, investment and saving rates, and level of imports and exports will also be examined. There are various productivity measures proposed but the relevance of the measures depends largely on the purpose and availability of the data (OECD, 2001, p. 12). Moreover, competitiveness of a country can be gauged through technical change. As such, multi-factor productivity (MFP)[22] that can capture such changes is relevant to this analysis.

After a clear definition of economic development is adopted, the following section discusses the arguments regarding underdevelopment asserted by Dependency Theory. As indicated in Chapter 2, Dependency Theory argues that China would undertake labour-intensive manufacturing production in the new international division of labour while advanced industrialised countries focus on high value-added production. Therefore, trade between China and advanced industrialised countries causes China to suffer unfavourable terms of trade, which likely leads to trade deficits for China. Even with inflows of foreign capital, China would not benefit much as profits are repatriated back home by foreign firms. Moreover, foreign investment

[22] It was sometimes referred to as total-factor productivity (TFP).

paves the way for exploitation of workers and natural resources. The second argument of Dependency Theory, which was not unrelated to the first argument, portrays the high dependency of China on advanced foreign technologies. Such dependency discourages the development of indigenous technology in China and so makes catch-up impossible. In order to assess the arguments of Dependency Theory, I examine specifically the foreign economic relations of China as well as its technological development.

Subsequently, this chapter revisits the arguments put forth by Modernisation Theory. This theory argues that China will have economic development following liberalisation of its economy – the Western path of development. However, economic development could only be achieved after the basic conditions for take-off are fulfilled. This requires China to focus on developing the three non-industrial sectors: social overhead capital, agricultural technology and trade, particularly imports. With these conditions fulfilled, the process of industrialisation is spearheaded by certain sectors that spur China's take-off. Once take-off occurs, growth is irreversible and China will eventually catch up with developed countries, albeit with no uniformity in income per capita. In order to assess the arguments of Modernisation Theory, I examine specifically the three non-industrial sectors and whether economic growth has prompted China's take-off. The last section sums up the findings of this chapter. The analysis confirms that there is economic development in China. There were millions who had been lifted out of extreme poverty and many more others who have benefitted from a rise in living standard.

4.2 Dependency Theory on Underdevelopment of China

The foremost argument of Dependency Theory is that late-developing countries will experience underdevelopment as a result of their integration into the global economy. Integration impoverishes late-developing countries while enriching the developed countries (see Chapter 2 for detailed discussion of the assumptions of the Dependency Theory). A developing country such as China is subordinated in the

global production network which compels her to produce low value-added goods in exchange for higher value-added products. As a result, China suffers from unfavourable terms of trade, which when coupled with high dependency on foreign technologies, would likely cause China to run a negative trade balance. Moreover, in pursuit of development, China, in a less-developed position, has to import advanced technology from big firms or pay them royalties for the use of their patents (see UNCTAD, 2010).

Globalisation allows capital, goods and services to flow much more freely. It would then make more sense for MNCs specialising in manufacturing to relocate to places which have lower cost of production. Through this restructuring of global production by MNCs, Dependency Theory anticipates large movements of foreign capital into China. There may be industrialisation but a large portions of profits created domestically is captured by these MNCs. Additionally, Dependency Theory argues that technological dependence further exhausts the small fraction of profits China has gained from foreign investment. The profits made by MNCs through exploitation of the local labour force and resources are further repatriated to the MNC's home country. Therefore, the consequence of China's integration into the global economy is underdevelopment. In other words, economic development for late-developing countries through capitalist integration is not possible. Therefore, to examine the argument of underdevelopment put forth by Dependency Theory, two aspects of China are discussed: foreign economic relations and technology development.

4.2.1 Foreign economic relations

During the Mao era, China had a relatively closed economy. There was virtually no foreign investments from other countries, particularly advanced capitalist states. The hostility of China towards foreign capital was evident from the speeches of the leaders. Quoting Hua Guo-Feng[23] directly, '[w]e do not allow foreign capital to exploit China's resources nor do we run joint enterprises with foreign countries, still

[23]Hua was the designated successor of Mao Zedong.

less beg them for loans' (Peking Review, 1977, p. 18). Nevertheless, China did receive financial assistance from the Soviet Union. For the period from 1950-1957, the Soviet had provided about USD 1,325 million loans to China (Central Intelligence Agency, 1959, p. 9). Trade volume in the Mao era was also small as her major trading partners were socialist countries[24], particularly the Soviet. However, China still traded with 'capitalist states' to secure materials they needed on a barter basis (Jie et al., 1986, p. 60). Trade with capitalist states further expanded following the Sino-Soviet Split in the 1960s.

Although China under Mao did not completely 'delink' from the capitalist states, economic relations with them were definitely less significant compared to the reform era. As anticipated by Dependency Theory, with limited economic relations with capitalist countries, the Chinese economy experienced slow but steady growth since 1952 until 1960, before experiencing negative growth for the next two years (National Bureau of Statistics of China, 2014). Economy growth in 1961 and 1962 was deeply hampered and the Great Leap Forward campaign was arguably responsible for this. The death toll caused by this campaign is estimated as at least 45 million (DikÖtter, 2010). For both years, China experienced a negative growth rate at -27.3 percent and -5.6 percent respectively (World Bank, 2016b). National revenue dropped from 57 billion yuan in 1960 to 35.6 billion yuan the next year (National Bureau of Statistics of China, 2014).

Though rather slow, growth began to resume in 1963. Following that, China had a relatively healthy economy. From 1966 to 1978, China recorded averaged growth of 6.6 percent, while developed countries such as the US had only registered averaged growth of 3.4 percent (National Bureau of Statistics of China, 1983, p. 565). Similarly, data from the World Bank shows that the average growth rate for China in the same period was 6.5 percent (World Bank, 2016b). In assessing the trade relations between China and the Soviet, the Central Intelligence Agency (1959, p. 7) concludes that '[t]rade between Communist China and the USSR which, in the past, has

[24] The term socialist countries used here merely implies that the country is led by Communist Party.

expanded relative to the growth of China's GNP should continue to increase'. This suggests that the trade with and capital received from the Soviet Union had boosted the Chinese economy as a whole (Central Intelligence Agency, 1959, p. 3). Moreover, Sino-Soviet cooperation included assisting China with industrial projects. The major milestone achieved during China's First Five Year Plan was the 211 projects aided by the Soviets in technical and monetary terms, which was the core of the Chinese industrialisation program (Central Intelligence Agency, 1959, pp. 9-10). The most significant projects completed with Soviet assistance were the An-shan Iron and Steel Complexes in Northeast China that could produce million tons of steel and pig iron.

While there was some degree of economic growth in the Mao era, political turbulent disrupted development. After almost a decade of political turbulence, instability finally ended with the downfall of the Gang of Four. Deng Xiaoping, who was less radical than Mao, became the de facto leader. The change in leadership led China on the path to reform and opening-up. This change, scholars argue (Panitch & Giddin, 2013; Zhu & Kotz, 2011; Kolo, 2007) represents China's integration into global capitalism. Deng believed that opening to the outside world and getting assistance from others would help to realise the four modernisations (Deng, 1978, October 10). This includes getting foreign investments and expanding trade with the advanced capitalist countries. Therefore, the reform marks the beginning of the PRC's interconnectedness with the world economic system. Its abundant natural resources and most importantly, low-labour cost became appealing to foreign capital. Similar to Dependency Theory, Branstetter & Lardy (2008) argue that increasing openness to the market would attract FDI to China, but their idea departs when the latter contends that increasing FDI would bring economic development to China, which the former denies. Since China began to reform and open up, the inflows of FDI grew gradually. In 1983, the net inflow of FDI was USD 636 million and in 2015, the amount has reached USD 249.8 billion (World Bank, 2016a; National Bureau of Statistics of China, 1993, p. 647).

During the first decade of reform, most foreign capital came in the form of foreign loans[25]. According to the China Statistical Yearbook published in 1993, foreign loans constituted a large part of foreign capitals, while FDI accounted for only a fraction of the total utilised amount. It was not until 1992 that FDI overtook government borrowing[26] (National Bureau of Statistics of China, 1993, p. 647). In 1992, FDI more than doubled from the previous year. The 1990s were referred to as the 'second opening' in which Chinese government extensively promoted inflows of foreign capital. Statistics shows that within a year, from 1992-1993, the value of FDI doubled from USD 19.2 billion to USD 38.9 billion[27] (National Bureau of Statistics of China, 2014). This trend has continued. According to Santander Trade Portal (2016), FDI in 2015 also increased by 6.4 percent from the previous year.

Dependency Theory anticipates that the opening of China to the outside world would impoverish China, making her underdeveloped. However, this has failed to materialise. The opening of China to the outside has attracted massive FDI, which does not impoverish China, but instead has significantly boosted its growth rates. From Chinese official source, the average growth rate from 1979-1981 was 6.0 percent as compared to 1.5 percent in the same years for the United States (National Bureau of Statistics of China, 1983, p. 565). Moreover, according to Grabowski (2011, p. 20), '[t]he total agricultural growth and average annual growth rate from 1978 to 1984 were 42.23 percent and 6.05 percent'. China has also registered double-digit growth rates after the immense inflows of FDI in the 1990s. Likewise, growth rates rose steadily after China's accession to WTO with double-digit growth for several years (World Bank, 2016b).

Statistics show that except for 1981, 1989 and 1990, GDP per capita growth rate was well above 6 percent from 1979 to 2015 (World Bank, 2016d). Between 1990 and 2000, China's per capita income has increased fivefold from USD 200 to USD 1000

[25] Please note that from 2001, the total amount of foreign capital actually utilised does not include foreign loans.
[26] The amount of FDI pledged was of higher value but the actual realised FDI was reduced greatly.
[27] For the period of 1992-1993, the amount of FDI calculated by World Bank are USD 11.1 billion and USD 27. 5 billion respectively.

and by 2010, its per capita income reached USD 5000, which officially makes China a middle-income country (Stuart, 2015). While there was barely an upper middle class in 2000, Mckinsey study estimates that by 2020, the income of more than half of the urban population in PPP will qualify them as upper middle class (Eloot, Huang, & Lehnich, 2013). If realised, this is a significant achievement as Seto from the University of Yale indicates that the urban share of population in China is estimated to reach 60 percent by 2030 (Seto, 2013). What is surprising is that China's GNI in PPP dollars had exceeded that of the US since 2014. In 2015, the GNI of China was USD 19.4 trillion, while the US was about USD 1.3 trillion behind China (World Bank, 2016e). These figures mean that China alone accounted for roughly 17 percent of the world's GNI in 2015.

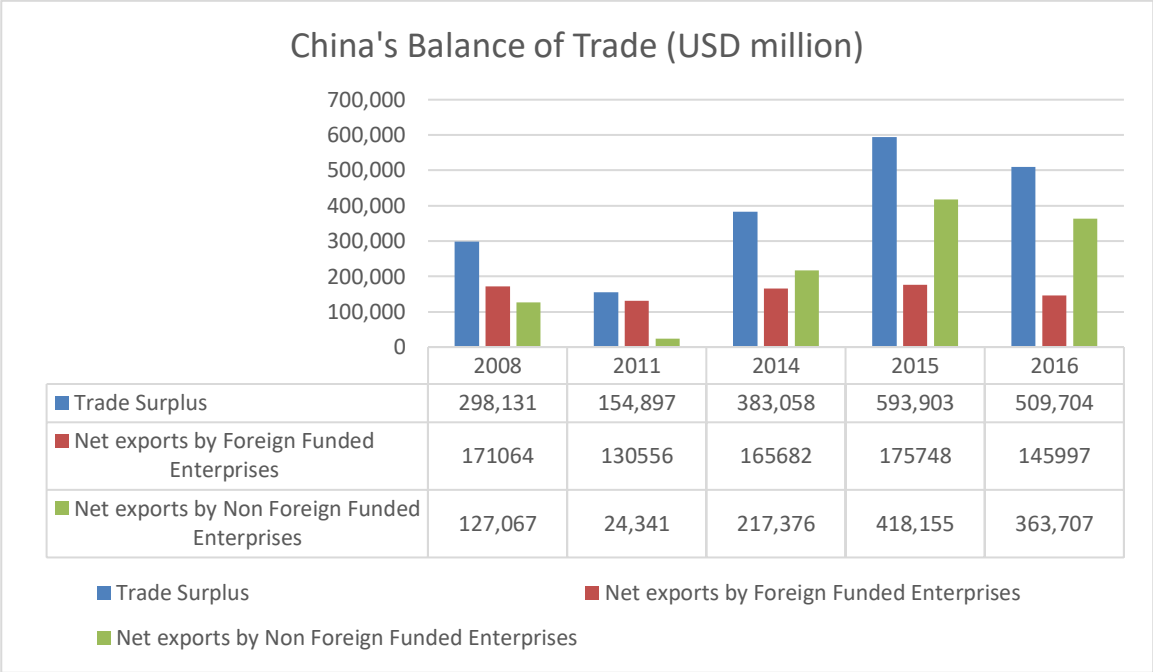
In terms of trade, Dependency Theory believes that, as a producer of low value-added goods, China suffers unfavourable terms of trade with developed countries who produce high value-added goods. According to Dependency Theory, China's high dependency on foreign technology further worsens its terms of trade. They thus predict that China would run trade deficits. From initial analysis, Dependency Theory is correct. Immediately after the decision to open up and reform, China suffered from trade deficits for four consecutive years (1978-1981). After regaining trade surplus for merely two years, China again ran large trade deficits for six consecutive years until 1989 with a total loss of more than USD 40,000 million for that period (National Bureau of Statistics of China, 2014). However, further into the reform, China was able to regain its trade balance especially when there were larger inflows of FDI in the 1990s. Unlike the trade surplus in the Mao era, the trade surplus generated in the 1990s is much more significant for the whole economy. In 1996-7, the trade surplus increased remarkably from USD 12.2 billion to USD 40.4 billion. In 2014, China had a positive balance of trade of USD 383.0 billion, while its total exports stand at USD 2.34 trillion[28] (National Bureau of Statistics of China, 2014). The value of surpluses was higher in 2015, before a slight fall a year later to around USD 509.0 billion.

[28] The value of exports varies a little between the Chinese official source and the World Bank, but the difference is negligible.

China has become the world's largest exporter of goods to date. This implies that as China opens up and receives more foreign investments, mainly in the manufacturing sector, it helps in generating a surplus for the Chinese economy.

Some would argue that the positive trade balance is attributable to the export-oriented activities of foreign enterprises. In this sense, a question arises about how much value China captures from such activities. The Chinese official source shows that from the USD 4.3 trillion total value of imports and exports, foreign-funded enterprises accounted for only USD 1.9 trillion in 2014 (National Bureau of Statistics of China, 2014). This amount was less than half of the traded value. Calculations based on data from the National Bureau of Statistics of China (2014, 2017) show that foreign-funded enterprises have always accounted for more of the surplus generated from trade, but the trend reversed in 2014 when non foreign-funded enterprises became the biggest profiteers (Refer Figure 4.1 for more details). For the USD 383.0 billion total value of trade surplus in 2014, foreign-funded enterprises accounted for USD 165.6 billion (National Bureau of Statistics of China, 2014). This figure was of course significant, but the total value of the trade surplus captured by foreign-funded enterprises was less than half with the rest captured by Chinese companies. This suggests that domestic firms are quickly expanding beyond the Chinese market. Furthermore, under Chinese law, the government classifies foreign-funded enterprises or foreign-invested enterprises as any firms with a minimum of 25 percent of foreign share capital (Huang, 2008, p. 18). Therefore, the total value of surplus belonging to China is larger than the data suggests.

Figure 4.1 China's Balance of Trade (USD million)



Source: Generated by author from National of Bureau of Statistics of China (2014, 2017)

This great achievement is not what Dependency Theorists would have expected from a late-developing country like China. Instead of exhausting its surplus on imports of machineries and equipment from developed countries, empirical data shows that China's current account has large surpluses. As of 2015, China's current account has a surplus of USD 330.6 billion, up from USD 277.4 billion in the previous year (World Bank, 2016h). According to a WTO report on China's trade policy, the higher surplus comes 'from a large increase in the merchandise trade surplus…[and] decline in imports' (WTO, 2016a, p. 8). Before the global financial crisis hit in 2008, China still had as high as 10 percent of GDP surplus in her current account (Ma, McCauley, & Lam, 2012, p. 65). By 2015, China's GNI has peaked at USD 10.7 trillion, from USD 186.0 billion in 1978 (National Bureau of Statistics of China, 2014, 2017).

It is thus a puzzle that, despite the unfavourable terms of trade, China is able to generate large surpluses. Reid (2016, p. 171) believes that the conditions of unequal trade were partially overcome by the actions of the Chinese state. Offering his view, Reid (2016, p. 172) argues that '[t]he volume of exports that China could rapidly produce ensured that a significant *mass* of surplus was generated, even if the rate of surplus extraction was rather low'. Moreover, as China opens up its market, the total reserves in the People's Bank of China began to increase and even overtook the total reserves of the US as early as the late 1990s. China's total reserves have risen sharply since the 2000s, leaving the US behind. By 2015, the total reserves of China at USD 3.4 trillion are almost 10 times larger than those of the US (World Bank, 2016u).

In addition, empirical evidence shows that the Chinese government has been able to generate substantial government revenues by levying taxes on MNCs and domestic firms alike[29]. In fact, China has been ranked second in 2009 for its harsh tax regime in the 'Forbes Tax Misery Index' (Anderson, 2009). Strong economic performance has contributed to the fast growth of government revenue (Lin, 2009, p. 30). While at the start of the reforms, government revenue as a share of GDP may have declined as SOEs no longer had to hand in all their profits, major tax reforms undertaken in the 1990s have gradually increased the government revenue (Lin, 2009, p. 2).

The Chinese government has also designed various taxes to increase government revenue. From direct taxes such as corporate income tax to indirect taxes such as value added tax, the state collected approximately 20 percent as a share of GDP in 2007 (Lin, 2009, p. 7). As highlighted by Dependency Theory, MNCs may wish to repatriate profits back to its home country which would impact China negatively. However, in a highly controlled system of foreign exchange as exists in China, the

[29] Only enterprises operating in certain fields encouraged by the Chinese government will receive preferential treatment such as tax incentives.

Chinese government has come up with several measures to discourage the repatriation of profits by MNCs. Among them was a measure to attract foreign investors to re-invest profits by offering partial refunds of income tax paid to the government. For those who wish to repatriate their after-tax profits, the profits are subjected to a tax rate of 10 percent (see Jiang, 1998, p. 563). In 2018, the government announced that foreign companies are able to defer the tax on profits gained from their Chinese investments if the profits are re-invested in sectors highly encouraged by the Chinese government (Zhang, 2018). These measures taken by the Chinese government are ways in which countries, particularly developing countries, can prevent massive repatriation of profits by the foreign investors.

4.2.2 Technology Development

When the PRC was founded in 1949, the US refused to recognise the new government of China. Faced with hostility and ideology differences, China resort to seeking help from the Soviet Union. The assistance came in the form of over 150 Soviet-aided projects and loans (Phalkey & Wang, 2016, p. 106). During the pre-reform era, trade with advanced capitalist countries was negligible. Unlike the predictions of Dependency Theory, the restricted economic relations with the developed capitalist countries did not subdue foreign technology dependence. Instead, there developed a very one-sided technological dependence on the Soviets. As can be seen, China relied primarily on direct imports and Sino-foreign joint ventures for technology transfers (Cao, 2007, p. 12).

However, rather than being solely exploitative, the Sino-Soviet relations provided mutual advantages for both parties. China provides Soviet with politics and ideology supports and received assistance in turn to build strong industrial bases (Central Intelligence Agency, 1959, p. 18). Therefore, the technical assistance from the Soviets helped to drive industrialisation in China. In 1952, China was able to produce about 436,000 tons of petroleum and the amount increased almost four times to 1.5

million tons in 1957 because of the imported technology (Central Intelligence Agency, 1959, p. 15). With the newly acquired technology, 'China intends to produce 70 to 80 percent of its requirements for industrial equipment and thereby to reduce its dependence on such imports' (Central Intelligence Agency, 1959, p. 16). Moreover, the information, skills and technology transfer from the Soviets enabled China to implement the 12-year plan (1956-1967), a long-term comprehensive plan for science and technology. This plan made considerable successes in paving the way for defence-related technology such as missiles and satellites (Phalkey & Wang, 2016, p. 106). Unfortunately, progress in science and technology was halted by two events: the Great Leap Forward and the Cultural Revolution.

Therefore, the period where China had limited economic relations with advanced capitalist states shows that China progressed quite well in terms of economy and technology with aid from the Soviets. However, it was difficult to bridge the technology gap. In the early 1960s, the gap in science and technology between China and the world was not that wide, but the gap has since widened as the world developed in a tremendous speed (Deng, 1978, October 10). Deng believed the gap could be bridged by importing and mastering advanced nations' science and technology. For most of the 1970s-80s, China ran trade deficits as she imported equipment and machinery from more developed countries. Since 1990, China began to maintain a favourable trade balance for a long period, with an amazing expansion in exports. This suggests that China began to have control over foreign technology in production. Instead of continued dependence on imported technology, the statistics shows that imported technology products declined over the years and by 2011, accounted for less than 40 percent of China's total imports (Wei, 2016, p. 265). The decline in imported technology products shows that Chinese enterprises are able to improve their product quality and production techniques (Wei, 2016, p. 266). This finding coincides with Koopman, Wang & Wei's (2008, p. 17) study in which they find increasing domestic content in China's exports.

The progress China made in technological development does not imply that there is no dependence on foreign technologies. Grimes & Yang (2018, p. 132) note that China has successfully pushed for greater levels of technological autonomy but maintain that China still relies on core technology developed by foreign firms in critical areas such as semiconductors. This is reflected in the impact of the ban on the sale of vital American technology to ZTE, a Chinese telecommunication maker, that had forced the company to stop its major operating activities. The discussions to lift the ban are still underway and are led by the Chinese government on behalf of ZTE (Bloomberg, 2018, May 31). The ban is said to be a response to the 'Made in China 2025' policy as 'China already wants locally-made chips inside 40 percent all smartphones in the domestic market by 2025 and is betting on domestic ''champions'' to get there' (Glenn & Cadell, 2018). The US views the efforts by China to pursue technological prowess as a direct challenge to its core status as technological leader (Bloomberg, 2018, April 10). It is safe to suggest that the US is concerned that in the future China would possibly overtake its technology dominance (see Chapter 5 for detailed discussion on China's innovation and technological progress).

4.2.3 Summary

Confirming the arguments made by Dependency Theory, there was economic development during the Mao era where China restricted economic relations with the advanced capitalist states. Apart from the negative consequences of the Great Leap Forward and Cultural Revolution, China had a relatively healthy economy, running trade surpluses for most years. Advances in science and technology assisted by the Soviets were evident in China. However, as Deng assumed the leadership, China decided to reform and open up because economic growth in the past was steady but not rapid. Moreover, Deng acknowledges that the closed-door policy during the Mao era lead to a widening in the technological gap between China and the advanced countries. Under China's open-door policy, the result was not underdevelopment as anticipated by Dependency Theorists, but impressive economic development for

China, much better than it was in the period before reform. There was at least a decade of trade deficits in the early post-reform years, arguably for the importation of foreign technology, but China began to regain a favourable trade balance as the FDI surges in the 1990s. The continued positive trade balance provides China with large surpluses in its current account. China may have experienced trade deficits at the beginning of its reform because of the importation of advanced machineries and equipment, but as years passed by, China became able to generate a trade surplus through higher labour productivity and technological improvement. The use of advanced technology in production helped to increase China's outputs and inflows of FDI boosted growth rates in China. This suggests that the reforms and opening-up of the economy did not make China more underdeveloped.

4.3 Modernisation Theory on China's Attaining Economic Development

Modernisation Theory argues that China would have economic development if she embarked on the process of modernisation. The start of the process of modernisation involves creating the pre-conditions for take-off before economic growth/development could be achieved. There are different accounts of when China started its modernisation process (preconditions for take-off). Barabantseva (2009, pp. 4-5) opines that it started as early as the 19th century through the West's attempt to force modernisation on China, even though this process was unsuccessful. Steinbock (2010) shares Barabantseva's (2009) sentiment. He too argues that 'the Opium Wars and the ''Unequal treaties''... marked the end of insulation and the beginning of the painful transition to modernity' (Steinbock, 2010, p. 350). Cao (2014, p. 10) on the other hand, believes that the Chinese have devoted themselves to China's modernisation only since the end of the Opium Wars in the 1860s. For Cao (2014), this became more evident after the establishment of the PRC in 1949.

Likewise, the period of take-off is also contentious. Rostow (1956) believes China entered the take-off stage in 1952 whereas Grabowski (2011) would date the start of the take-off from 1978. There is a clear contradiction in the timeline between the two

authors. Rostow (1956) did not specifically explain why he considered 1952 as a take-off period, but it was a year before Mao initiated the First Five-year Plan (Galloway, 2011). The rationale for Grabowski (2011) to pick 1978 as the beginning of take-off would be apparent for this was the year when China opted for the 'Reform and Opening Up' policy. Grabowski's (2011) viewpoint is also widely shared by other scholars such as Huang, Y. (2012). Although it is hard to determine the starting point for China's take-off, Modernisation Theory maintains that one of the characteristics visible in a take-off economy is that it shows phenomenal growth such as a significant rise in effective investment and savings, which can be more than 10 percent of the national income. China's growth pre-reform was averagely good, but growth after reform was exceptional including its level of investments and savings. Moreover, as explained by Modernisation Theory, such growth will lead to structural shocks that can change the basic structure of the economy.

Therefore, China's take-off only began after its reform because the period saw exceptionally economic boom as well as significant structural change. While imperial rule ended much earlier than 1949, there were ongoing wars within China that halted the development process. Stability was only regained in 1949 with the founding of PRC led by the CPC. Therefore, in the modern history of China, pre-conditions for take-off would likely only have emerged after the establishment of the PRC where it began to break away from the traditional rules and system that had governed China for centuries. The process of modernisation that began during the Mao era did bring change to the ideologies and social systems of China, but it was not a process of capitalist modernisation. Instead, it was guided by Marxist ideology and Chinese realities (Cao, 2014, p. 11). The fundamental agreement that modernisation scholars (Sachs, 2004; Steinbock, 2010) share is about the present stage of China. They maintain that the present China is in transition from take-off to maturity. Grabowski (2011, p. 6) posits that the process of catch-up with the West is well underway in China. He further contends that China could achieve equality in per capita GDP with the US in twenty to fifty years. He foresees that 'in one or two decades coastal China may achieve a standard of living similar to that of the average US citizen'

(Grabowski, 2011, p. 6). Grabowski's predictions seem to have been realised as the recent development shows that China have moved beyond its 'take-off' stage. In a recent report, the Bank of New York Mellon asserts that the Chinese economy has matured and demonstrated the characteristics of the fourth stage – the drive to maturity. In particular, the report finds that China is gradually shifting from a manufacturing to a domestic consumption-based-economy with large-scale investments in social infrastructure (Goodbar, 2017). Moreover, with Xi Jinping announcing that China has reached a new era of socialism with Chinese characteristics that has ensured the construction of a moderately prosperous society, China is seen to have achieved the 'drive to maturity' propounded by Rostow. Morever, Xi Jinping pledges that from 2035 to the middle of the 21st century, China would basically achieve modernisation, leading to common prosperity for all (Xi, 2017, p. 25). This means that China would be fully developed and on a par with the development level of the advanced countries or in other words, China would catch-up with the advanced countries by middle of the 21st century.

The study by Grabowski (2011) and China's recent development seems to confirm the catch-up outcome proposed by Modernisation Theory. However, assessing the explanatory power of Modernisation Theory requires not only an examination of the outcome but also a discussion of whether the developmental outcome is in line with the proposed strategies of Modernisation Theory. The latter is discussed in detail in Chapter 7. Generally, Modernisation Theory argues that developing countries can achieve development if they embrace modernity. Specifically, during a country's 'pre-conditions to take-off', there needs to be a radical change in three non-industrial sectors. These are: 1) build-up of social overhead capital; 2) technological revolution in agriculture; and 3) expansion in imports of products and possibly capital (see Chapter 2). For this reason, it is essential to trace the changes in these three key sectors since the establishment of the PRC and to evaluate the efforts of the Chinese government in developing these sectors. The emphasis placed by Rostow (1960) on the role of national government in leading the modernisation process is often overlooked and less analysed, and we will take particular focus on the role of

government in creating a growth-inducing environment. Moreover, during take-off, at least 10 percent of national income is directed to investment. This assessment is complemented by macroeconomic data such as GDP per capita to understand if embracing modernisation can bring economic development to China as proposed by Modernisation Theory[30].

The following sections seek to assess whether Modernisation Theory has accurately predicted the economic development of China. Modernisation Theory argues that countries develop in a linear fashion. Developing countries need to embrace modernity and once momentum is gained, growth will continue and be irreversible (see Chapter 2 for more detailed discussion of Modernisation Theory's assumptions). According to Modernisation Theory, one of the main obstacles to development in the Third World is the lack of capital. Contrary to Dependency Theory, Modernisation Theorists like Rostow believed that contact with developed capitalist countries can facilitate the development and progress of developing countries (Kiely, 2007a, p. 50). Economic cooperation with developed countries will generate growth and help with the alleviation of poverty. In this sense, trade with and foreign investment from the developed countries would yield economic benefits for China.

However, China would need to meet certain criteria before she can take-off and experience growth. Radical change in three non-industrial sector, i.e., the build up of social overhead capital, the development of agriculture technology, and expansions in imports including imports of foreign capital are conditions necessary for take-off to happen. Moreover, one point that is often overlooked is the fact that modernisation efforts must be led by an effective and willing national government. Only when the three non-industrial sectors are sufficiently developed, would China's investments and savings increase. This would in turn fuelled economic development. Drawing from the arguments of Modernisation Theory that prioritises the development of the three key sectors, I examine the level of Chinese economic development in these sectors. As such, I would trace the development of Social Overhead Capital and

[30] Embracing modernisation in this sense means transition to a (full) market economy.

Agricultural Technology. Moreover, I will also examine China's foreign economic relations, which give insights into the trade activities and movement of capital between countries. Before confirming if there is any economic development, I will investigate if China meets the 'pre-conditions to take-off' as outlined by Modernisation Theory, and as such the analysis of post-1978 reform is less prominent than pre-1978 period in the following section. Despite that, post-1978 development in the three non-industrial sectors will also be discussed to see if these developments have actually led China to its 'take-off' phase.

4.3.1 Social Overhead Capital

Although social overhead capital is not directly linked to part of production, but the purpose of building such capital is to ensure that other productive (economic) activities are able to proceed smoothly (Ikegami, 1966, pp. 45-46). Social overhead capital is often used as a synonym for core infrastructure (Arora, 2009, p. 131). Examples of social overhead capital are transport and electricity, which are important in driving industrialisation. Rostow has largely leave out the discussion of human capital in driving sustained growth of the economy. The exclusion of social capital as an important foundation of the economy is one of the shortcomings of Modernisation Theory.

During the command economy period, Mao dedicated extensive effort towards developing social overhead capital. In one study by Jin et al. (2012), they find that since 1949, China's transportation infrastructure has grown in terms of quality and quantity. During the early years of the PRC, the transportation system was small and of low-quality (Jin et al., 2012, p. 320). Speaking to one of the Indian politicians, Mao said, 'India's total length of railway tracks was longer than China's' (Phalkey & Wang, 2016, p. 103). Realising the importance of social overhead capital for industrialisation, Mao focuses on expanding rail lines, conserving water and preventing floods. The prevention of flood and drought were important for the development of agriculture and efficient transportation would help to restore

production. Lin indicates that China's investment prior to reform was always above the 11 percent of GDP recommended for possible take-off, with most infrastructural investments allocated to heavy industries (Lin, 2012a, p. 98).

Statistics compiled by Jie (et al., 1986) highlights the Mao government's initiatives for water conservation. 700 million yuan was allocated for these projects. This amount was 'more than 10 percent of the budgetary investment in capital construction' (Jie et al., 1986, p. 71). There were also measures to prevent flood in east and north China by initiating 358 modernised irrigitation projects (Jie et al., 1986, p. 72). While focus is on repairing and improving existing railway lines, the government had also built three new lines: Laibin-Munanguan Railway, Chengdu-Chongqi Railway, and Tianshui-Lanzhou Railway (Jie et al. , 1986, p. 72). The addition lines promote better connectivity between areas which is important for effective transportation of goods and people. '[i]n 1978, the total mileage was 1.23 X 10^6 km^6' as compared to only 206,700 km in 1950 (Jin et al., 2012, p. 320). Moreover, since production requires sufficient power supply and raw materials, Mao's government had also invested intensively in the power, coal, and iron and steel industries (Jie et al., 1986, p. 71). It could be argued based on the data of China Statistical Yearbook and the findings of Lin (2001), Mao's government had major accomplishments in building the social overhead capital, with some form of assistance from the Soviet. Besides, the report by National Bureau of Statistics of China (1986) indicates that the size of the road network had increased dramatically since 1949, while the length of China's railways had doubled by 1978 (see Table 4.1).

Table 4.1 Length of China's Transportation Network (1000 km)

Year	Roads Total (1000 km)	Railway Total (1000km)
1949	80.7	21.8
1952	126.7	22.9
1957	254.6	26.7
1962	463.5	34.6
1965	514.5	36.4
1975	783.6	46.0
1978	890.2	48.6

Source: Adapted from National Bureau of Statistics of China (1986, p. 362)

Even after reform, the Chinese government continued the expansion efforts. By 2000, China had 'formed an integrated transportation system with certain scale and various transportation modes' (Jin et al., 2012, p. 320). The transportation technology of China has grown rapidly in recent years. In 2008, China opened its first high-speed railway line, the 'Beijing–Tianjin inter-city railway' and many lines followed thereafter. Moreover, China is the first country in Asia to have electrified and double-track ratios of railway, and its railway mileage was third in the world (Jin et al., 2012, p. 322). Jin's (et al., 2012) study also finds that the forms of transport developed by the government have changed over the years. They identified the change in the government's strategy as attributable to the changing industrial structure of China. Prior to reforms, China engaged mostly in production of primary products, which was more appropriate for railway and waterway transportation. However, as China developed its manufacturing sector, road and air transportation were more favoured (Jin et al., 2012, p. 322).

As a result, there have been more efforts in developing air and road transportation. This could be one of the reasons why the study by Lin (2001, p. 87) found that the pace of infrastructure (conventional)[31] development was much more rapid in the period of 1952-1978 (prior reform) than 1978-1999 (after reform). At the outset of the 2008 Global Financial Crisis, with substantial amount of foreign reserves, China immediately pulled out a USD 586 billion stimulus package (Barboza, 2008). Part of the stimulus package was directed at building public infrastructure. From 2009 to 2010, investment in infrastructure shows incremental increases 'by an average of 17 percent in each of those years' (IMF, 2016, p. 173). According to Hart-Landsberg (2015, p. 12), '[t]he investment share of Chinese GDP has, according to official figures, grown from 39.1 percent in 2007 to an astounding 46.1 percent in 2012'. This investment rate was way higher than the minimum 10 percent of national income suggested by Modernisation Theory.

Moreover, the Go West Policy has helped to further expand the infrastructural development of Western China. An international freight train that connects Western China to central Asia was completed in 2013, which was in line with the goals of the One Belt One Road (OBOR) of reviving the ancient Silk Road. This new line, connecting Xi'an and central Asian countries has helped to improve transportation efficiency by cutting down freight time to six days, which was 20 days less than by road (Xinhua, 2016, May 15). The integrated road networks include Lianyungang-Lanzhou railway, Lanzhou-Xinjiang Railway and the highway from Lianyungang to Khorgas, a Chinese town near Kazakhstan (Lan, 2013). Moreover, under OBOR, the National Development and Reform Commission (NDRC) has pledged to support the building of airports and international land ports in Xi'an and Zhenzhou to facilitate the transportation of goods and services between inland and coastal and border regions (National Development and Reform Commission PRC, 2015). The launch of OBOR has helped to shift the Western region's reliance on inter-provincial investment to cross-border investments, which was expected to close the gap in the

[31] Examples of conventional infrastructures are roads, railways, gas pipelines and petroleum.

level of economic development between eastern and western regions of China. Moreover, the OBOR is so extensive that out of 27 provinces, it has covered 16 provinces (PwC, 2016, p. 4). Since China has the largest net imports of oil, connecting China with central Asia that has abundant energy and mineral products is also said to improve China's energy security.

The OBOR initiative expands the development of infrastructure not only within China, but also outside of China. It is said to provide the world's largest platform for economic cooperation linking countries through roads, waterways, air, railways and pipelines under the Silk Road Economic Belts and 21st Century Maritime Silk Road (Tian, 2016). OBOR connects almost 65 countries that contain over half of the world population and 30 percent of world GDP. A consultant firm, PwC, estimates that the total investment needed for the infrastructure projects is about USD 5 trillion (PwC, 2016, p. 5). This was funded through the establishment of the Silk Road Fund and also the Asian Infrastructure Development Bank. The Karot hydropower project in Pakistan was the first project funded by the Silk Road Fund within the broader China-Pakistan Economic Corridor (CPEC) initiative. CPEC aims to link Gwadar Port with Xinjiang Uyghur region through a planned network of roads, railways and energy projects, which would shorten the distance taken by China's energy imports (Xinhua, 2015, April 21).

Besides, a steady and uninterrupted supply of electricity is important for industrialisation, particularly for energy-intensive industries. Before reform, the Chinese government had built power plants with the Soviet assistance through importing power-generating equipment from the Soviets. While in 1957, China was able to generate 19.3 billion kWh, the output more than tripled in less than 10 years. By 1978, China was able to generate 256.6 billion kWh electricity (Lin, 2001, p. 86). Back in the early years, China was relatively more backward than India in most areas, but by 1957, the electricity output of China was almost doubled that of India (Central Intelligence Agency, 1959, p. 16). According to the World Bank, by 2015, all the population in China had access to electricity (World Bank, 2016n).

Despite the unfortunate events of the Great Leap Forward and Cultural Revolution, the era under Mao has achieved considerable success in building social overhead capital. Under the Deng leadership, China continued the expansion of social overhead capital. In the early period of reform (1981-1985), of total expenditures of RMB 748.31 billion, more than half was allocated for economic construction (National Bureau Statistics of China, 1998, p. 277). The construction of social overhead capital during the Mao era was fundamental to the opening and reform of China in the later years. As maintained by Modernisation Theory, the solid foundations laid in the Mao era had helped to power China's take-off in the later stage. Indeed, study by Faheem et al. (2011) suggest that one of the most important factors attracting FDI to China is the quality of its infrastructure. The quality of rail-roads, roads, ports and many other infrastructures were of much higher quality than other developing countries (Faheem et al., 2011, p. 132). Likewise, the review of literature by Abu Bakar, Che Mat & Harun (2012, p. 206) finds that infrastructure does play an important role in influencing inflows of FDI.

4.3.2 Foreign economic relations

Modernisation Theory posits the view that increasing trade with developed countries could help to raise the income of the developing countries. In addition, Rostow (1959, p. 5) encourages expansion of imports including foreign capital. Rostow argues that it was the lack of capital that impede the development of developing countries. Therefore, by importing capital, progress can be achieved. Economic relations with the rest of the world could also foster the development of technology, which would raise the productivity level. In this sense, liberalisation of the economy of China would result in economic development.

Going back to the socialist modernisation envisioned by Mao that 'base[d] itself on the principle of independence and self-reliance' (Teng, 1982, p. 167), one might expect China to practice a closed economy. It may well be true that the volume of

trade was small during the Mao era, but foreign trade remained an important part of the Chinese economy. Trade was in fact quite prevalent, but less extensive during the Mao era. During the pre-reform era, China traded mostly with other socialist countries, and on a limited basis with developed capitalist countries because of the strong emphasis on the differences in political ideology. It was reported that in 1951, 'the volume of China's imports and exports with the Soviet Union and other East European countries accounted for 61.9 percent of the nation's total, as against 25.9 percent the year before' (Jie et al., 1986, p. 59). The Chinese government policy of favouring socialist countries was clearly reflected in the trade statistics. In the year 1952, China's total trade value was USD 808.6 million with the Soviet Union, USD 25.8 million with the United Kingdom, and a negligible value of USD 50,000 with the US (National Bureau of Statistics of China, 1981, pp. 359, 364 & 366). According to an American source, the total trade between China and the Soviet Union in 1957 was USD 1, 290 million (Central Intelligence Agency, 1959, p. 1).

Moreover, China had imported much equipment and manufactured products. According to the report published by the CIA, the main type of imports from the Soviet Union in 1956 consisted of machines and equipment, mostly with complete installation. In 1957, the import of equipment and machines accounted for 50 percent of Chinese total imports from the Soviet Union, while exports from China consist mainly of agriculture commodities and minerals (Central Intelligence Agency, 1959, pp. 7-9). The CIA maintains that 'Chinese imports of industrial equipment and complete installations from the USSR have made a major contribution to the economic development of China' (Central Intelligence Agency, 1959, p. 4). Particularly the equipment for the exploration and development of petroleum resources were essential in expanding petroleum production in China.

Following the Sino-Soviet split in the early 1960s, China began to expand trade with capitalist countries. The total trade of China with the Soviet Union continuously dropped from USD 1.66 billion in 1960 to USD 47.23 million in 1970 (National Bureau of Statistics of China, 1981, p. 359). On the other hand, trade with developed

capitalist countries was further accelerated with the normalisation of Sino-Japanese, European Economic Community and United States relations (Teng, 1982, p. 169). According to Teng (1982, p. 169), in 1979, 'trade with capitalist countries and regions amounted to 87 percent of gross value'.

Total trade gradually increased as China began to trade with more countries. For the period of 1970s, trade had doubled compared to in the 1960s, and tripled compared to the period in 1950s (National Bureau of Statistics of China, 1981, p. 353). The surplus generated from trade enabled China to have a high rates of savings. Initially when the reform began in 1979, domestic savings stood at 32 percent of GDP. In addition, China's foreign reserves were USD 952 million, a year before reform (National Bureau of Statistics of China, 2014). As such, the concentration of capital in the hands of the government during the pre-reform period had made available a large sum of disposable income in the reform period. Moving from a command economy to a market economy allows more households to have savings. Hence, savings as a percentage of GDP have gradually increased and reached 49 percent in 2004 (Morrison, 2006, p. 3). While it is true that China has high levels of savings after reform, Reid (2016, p. 168) argues that such a condition was 'initially accompanied by maintenance of low wage costs and oppressive control'.

Furthermore, the expansion in trade was further fuelled by the change in leadership. In 1978, China under Deng decided to launch a series of economic reforms. Deng was determined that foreign experiences, and advances are useful for China. In his speech at the Second Plenary Session of the Twelfth Central Committee of the Communist Party of China, Deng made clear that '[i]f we want to learn from developed capitalist countries and take advantage of such advances in science, technology, management and other areas as may be useful to us, it would be foolish to keep our doors closed and persist in the same old ways' (Deng, 1983, October 12). Under the open door policy, Chinese trade and investment expanded massively. Within just a year after the reform, total trade doubled as compared to the year before reform (National Bureau of Statistics of China, 2014). As an initial step to adopt the

advances made by capitalist countries, China began to import mechanical and electrical products.

In 1982, approximately 2 million electronic calculators, 1 million television sets, and thousands of cars were imported (National Bureau of Statistics of China, 1983, p. 419). Therefore, for the first few years, China ran trade deficits with European countries and the US (National Bureau of Statistics of China, 1983, p. 409 & 411). In the 1990s, a trade surplus was regained and continued for most of the years until the present. Moreover, China's accession to the WTO allows her to trade more freely with other countries. This became an advantage because China could import advanced foreign technology which they could adopt. It is also interesting to note that China has imported production lines from other countries. Liu (2008, p. 5) notes that 'there were about more than 100 imported color TV production lines in China, most of them from Japan'. Through 'learning by doing' and the training received, this would essentially foster managerial methods, information, and technology transfer. While being innovative is important to drive the technological development of China, being able to use technologies created by advanced countries is also an advantage. Without having to contribute spending on R&D, China is able to use technology created elsewhere, which is regarded as a condition of priviledge of backwardness as suggested by the Theory of Uneven and Combined Development.

During the Mao era, foreign investments were not profound. The rapid surge of FDI came only after the decision by Deng to open and reform the economy. In the early period of 'reform and opening-up', foreign investments increased at a slow pace. The rapid inflows of FDI came after Deng made his famous southern tour. In 1991, the realised FDI was USD 4.3 billion, and a year later the amount has surged to USD 11 billion (National Bureau of Statistics of China, 1993, p. 647). By 2015, China's FDI was USD 249.8 billion (World Bank, 2016a). As a proportion of total foreign direct investment, the manufacturing sector received the most investment since 1997. By 2014, the manufacturing sector still received the highest share of FDI, more than 30 percent of the total realised FDI (National Bureau of Statistics of China, 2015, p.

381). The concentration of FDI in the manufacturing sector allows China to 'become a world factory in just few decades and achieved the level of industrialisation that took European countries more than a century to realise' (Qu, Cai & Zhang, 2012, p. 93). The idea that FDI contributes to the economic growth of China is echoed by Fan & Sun (2008), Wei, Yao & Liu (2007) and Tseng & Zebregs (2002). Wei, Yao & Liu (2007, p. 6) argue that the increase of FDI is parallel to the increase of GDP.

Also, in an expanding Chinese manufacturing sector, foreign investments have brought new industry into China – processing and assembly. Processing and assembly activities in China became more prominent in the late 1990s. In 1997, approximately USD 1 billion was utilised for processing and assembly trade and it has since continue to grow to USD 3.1 billion by 2005, before a slight fall in 2006. However, processing and assembly activities have begun to wane in China. By 2014, the foreign investment received for processing and trade was merely USD 144 million (National Bureau of Statistics of China, 2014). Cao (2007, p. 1) also argues that the 'foreign direct investment (FDI) has to a large extent recast China's industrial base and upgraded its industrial technology'. In the past, the manufacturing sector contributed strongly to China's double-digit growth rates. In recent years, FDI in the real estate sector has soared quickly and has become increasingly comparable to the value of FDI in the manufacturing sector (National Bureau of Statistics of China, 2015, p. 381). The declining manufacturing sector and the emerging service sector suggest that the structure of the Chinese economy is changing and is moving beyond the take-off phase. Despite that, distribution of FDI in service sectors is skewed with the financial sector receiving less than 1 percent (Broadman & Sun, 1997, p. 15). The inward FDI in financial sector would remain low as the financial sector is still off-limits for foreign investors (Yao & Tham, 2016). According to Casarini (2016, p. 98), the Chinese economy is transitioning from an export-led model to domestic-based consumption and outward investment. Concurring with Modernisation Theory, liberalisation allowed China to increase their income. As China increasingly opened up, government has been able to increase their revenues from the economic activities taking place.

Based on the ratio of exports and imports to GDP, China was relatively less open in the early 1980s. By 2006, China's openness ratio has increased to 70 percent (Yu & Tian, 2012, p. 112). A report by UNDP China (2015) demonstrates that the increase in government revenue was more rapid from the 1990s. In 1994, the government's revenue was RMB 521.8 billion and by 2013, the amount has reached RM 12.9 trillion. This also involved an increase in the share of government revenue from 10.83 percent of GDP to 22.71 percent (UNDP China, 2015, pp. 6-7). According to the data, almost half of the government's revenue in 2011 was generated from tax. The tax revenue accounts for 10.39 percent of China's GDP (World Bank, 2016g; UNDP China, 2015, p. 7). Despite the financial crisis, China is still able to maintain a net national savings rate of 39.8 percent and 40.3 percent of GNI for the years 2008 and 2009. The breakdown analysis of Chinese savings shows that Chinese households have the largest share of total savings at 23.4 percent of GDP in 2008. This is followed by corporate savings at 18.8 percent and government savings at 11.0 percent. The share of government savings remains the smallest but it has more than doubled from 4.4 percent in 1992 to 11 percent in 2008 as a percentage of GDP (Ma & Yi, 2010, p. 10). The rapid economic growth of China has also significantly reduced poverty. Poverty headcount ratio for China using 2011 PPP shows that in 1990, about 66 percent of its population was living under USD 1.90 a day, but in a decade the figure has halved. By 2013, only 1.9 percent of its population was living under USD 1.90 a day (World Bank, 2016f). By 2015, per capita income in China was about USD 8000 (World Bank, 2016d).

4.3.3 Agricultural technology

In the early years of PRC, agricultural output contributed more than half of the Chinese economy's GDP. However, agricultural output was based on the use of traditional agricultural techniques, which are less productive than modern techniques. In order to increase the productivity of agriculture, the government consistently invested in this sector. Though the government placed emphasis on heavy industry in

the late 1950s, investment in the agricultural sector was never below 5 percent. According to Colby, Crook & Webb (1992, p. 36), since 1952, the government had invested more than 5 percent of its total expenditure in agriculture, and the share increased to 13.8 percent in 1977, the year prior to reform. Moreover, since flood and drought were the main factors affecting crop yields, the government allocated 700 million yuan for water conservation projects (Jie et al., 1986, p. 71). The government also expanded the irrigated area and modernised irrigation facilities in the hope of increasing production. As a result, '[i]rrigated cultivated areas grew at 2.41 percent per year' (Grabowski, 2011, pp. 17-18).

The massive irrigation projects were initiated during the Great Leap Forward as a way to increase grain yield (Han, 2009). In 1957, there were about 27 million hectares of irrigated areas, but a year later, the irrigated area had more than doubled to 66 million hectares. Despite these effort, the quotas set by local cadres were unrealistically high. In order to achieve the quotas, plants were planted close together and huge amounts of fertiliser were spread. As a result, young plants died before reaching maturity (Benson, 2013, p. 36). Agricultural output continued to drop from 1959 to 1961. Millions of Chinese suffered from starvation. This period is referred by the Chinese as the 'Three Bitter Years' (Benson, 2013, p. 37). Moreover, some irrigated areas expanded during the Great Leap Forward were destroyed by a disastrous flood, and by 1962, the irrigated area was half of the total areas in 1958 (Colby, Crook & Webb, 1992, p. 165).

Nevertheless, the expansion of the cultivated area is important for the application of new agricultural technologies such as modernised irrigation facilities. The Chinese government also began to invest in more advanced agricultural technology such as tractors, chemical fertilisers and pesticide, which yield a greater harvest (McFarlane, 1984, p. 22). Therefore, mechanised agriculture was introduced to farmers. Farms began to use tractors and trucks to help with agricultural work. After the reform, large and medium tractors continued to be of importance. By 1978, farms had more than 500,000 tractors and the number continued to grow after the reforms (Colby, Crook

& Webb, 1992, p. 168). Most importantly, through research and the trial-and-error process of actual farming, China was able to produce three types of chemical fertilisers: nitrogen, phosphorus and potassium (Colby, Crook & Webb, 1992, p. 175). In addition, in 1978, China was able to produce over 110, 000 tractors as compared to less than 10,000 in 1965 (Xue, 1981, p. 244). This is a big technological advance for it enables more efficient agricultural production. As a result of the application of new agricultural techniques and the development of agricultural technology, 'farm gross output grew at an annual rate of 2.32 percent from 1957 to 1978' (Grabowski, 2011, pp. 17-18).

While there was much success in development of agricultural technology during the Mao era, the Great Leap Forward and Cultural Revolution had disrupted progress. As a result, China could not narrow the technological gap with the advanced capitalist states (Chen, Lawrence & Zhang, 1995, p. 699). Therefore, Deng anticipated that the opening of China to the outside world would enable China to take advantage of the technological advances of the developed capitalist countries. Deng reiterated on numerous occasions the benefits that can be obtained from an open door policy (Deng, 1983, October 12; Deng, 1984, June 30;). Deng's belief was affirmed by many studies years later (Chen, Lawrence & Zhang, 1995; Tseng & Zebregs, 2002; Tyers, 2012; Yu & Tian , 2012).

In the early reform, the government promoted a household-responsibility system. In this system, 'communal farms were dismantled and production brigades and teams were replaced by township and village governance structures' (Grabowski, 2011, p. 20). The new ruling elite allowed farmers to lease land on long-term contracts. China also moved to a dual-track system in which each household could keep any excess output after meeting the production quotas for crops at state-fixed prices. Farmers could keep it for their own consumption or sell it on the open market in exchange for money. Such incentives drove Chinese farmers to utilise the technological backlog that had accumulated during the pre-conditions phase. The impact it brought was astonishing. As quoted in Grabowski (2011, p. 20), '[t]he total agricultural growth

and average annual growth rate from 1978 to 1984 were 42.23 percent and 6.05 percent'.

The introduction of incentives raised productivity. Rapid growth also brought a significant increase in income for farmers. The rise of surplus labour from the country side after the dismantlement of collective farming drives labour into non-agricultural activities, which spurred the expansion of township and village enterprises. As a result, 'growth was largely based upon the development of rural-based manufacturing, driven by rapid agricultural growth' (Grabowski, 2011, p. 6). The government also established seed-breeding centres and scientific research centres to study ways to improve different kinds of soil (Xue, 1981, pp. 245-246). As such, there was at least a 2.5 percent increase in arable land from 1981 to 1985 (World Bank, 2016c).

In addition to government efforts to promote the development of agricultural technology, the promotion of inflows of FDI also positively impacted on the development of other forms of technology. The state played a strong role to encourage and permit FDI that could introduce new and advanced technologies. For example, the Chinese government encouraged FDI pledged to the telecommunication industry to promote the transfer of technology from advanced countries to China (Chen, Lawrence & Zhang, 1995, p. 700). Joint ventures were also encouraged in strategic industries (Tseng & Zebregs, 2002, p. 13). The data organised by Wei (1995) indicates that the majority of direct foreign investment that came into China in 1990 and 1991 took the form of joint ventures and joint exploration. Moreover, though the amount of capital invested by wholly-owned foreign firms has increased at the rate of 66.1 percent from 1990 to 1991, the proportion of FDI from wholly-owned foreign companies were still less than 40 percent of the total amount of FDI going into China (Wei, 1995, p. 190). Most importantly, joint venture and joint exploration imply that there is an exchange of managerial skills, technological know-how, and information that resulted from cooperation.

Less optimistic accounts of the process of technology transfer through joint ventures are expressed by Beausang (2012). Beausang (2012, p. 31) argues that multinational companies tend to preserve their technological superiority, which may impede technology transfer (as cited in Kiely, 2015, p. 185). While it is true that FDI in the early 1990s was mainly allocated in 'relatively unsophisticated projects', it still helped to foster the transfer of low and intermediate technologies, and intermittently the transfer of advanced technologies (Chen, Lawrence & Zhang, 1995, p. 700). One of the most important and positive impacts of FDI according to Chen, Lawrence & Zhang (1995, p. 700) is 'the transfer of ''software'', managerial and export marketing technology so crucial for the development of a market economy'. Additionally, setting up manufacturing factories for large-scale productions of goods would necessarily need local employees to master the related machinery.

Additionally, many studies (Cao, 2007; Yu & Tian, 2012) confirm that there has been technological upgrading accompanying the inflows of FDI into China. Using firm-level analysis, Yu & Tian (2012) observe that the varieties of imported intermediates have declined over the years in processing trade. This suggests, they argued, 'heightened specialisation, greater domestic intermediate inputs, or both' (Yu & Tian, 2012, p. 112). Similarly, statistics compiled from Chinese official sources and international organisations tells the same story. China usually imports and exports low-end products, but in the last five years it experienced an expansion in the export and import of high tech products. By 2014, the total transacted value was USD 1211.9 billion (National Bureau of Statistics of China, 2015, p. 677). In 2014, China's high-technology exports accounted for 25.3 percent of total manufactured exports (World Bank, 2016k).

Advanced and new forms of technologies raise the productivity level of China. The increasing productivity level is observed and measured by Ozyurt (2007), Tseng & Zebregs (2002) and Tyers (2012). Ozyurt's (2007) analysis makes two main points about the productivity level in China. First, the study finds that Total Factor Productivity (TFP) growth increased sharply along with the acceleration of China's

integration into the world economy. Second, TPF growth in the post-reform period has contributed substantially to Chinese economic growth (Ozyurt, 2007, p. 1). According to Tseng & Zebregs (2002, p. 19), 'FDI has raised TFP growth in China by 2.5 percentage points per year during 1990s'. Tyers (2012) stimulations also show that TFP in the light manufacturing export sector has risen because of the effects of a steady inflow of FDI (pp. 33-34). Looking at a wider timeframe, Holz (2006, p. 98) reports that the TFP level in the reform period was much higher than in the pre-reform period.

Nevertheless, more emphasis was given to the agricultural sector in the pre-reform period. From 1949 to 1959, the agricultural sector contributed most to China's GDP. By 1959, when Mao launch the Great Leap Forward aiming to 'catch up' with Great Britain in terms of steel production, industry overtook agriculture as the main contributor to China's GDP for two consecutive years. For the rest of 1960s, the agricultural sector remained as the leading sector in the Chinese economy, but it was subsequently replaced by industry. While agricultural output has increased over the years, especially after reform, the increase was still at a much slower pace than the industrial output as China is moving beyond its pre-take-off period (National Bureau of Statistics of China, 2014). Therefore, after reform, industry has always contributed more than 40 percent of China's GDP. However, recent data illustrates the gradual transition of China from industry to a service-based economy. In 2015, service contributed 50.4 percent to the GDP, while industry has dropped by approximately two percentage point to 40.5 percent (World Bank, 2016i; World Bank, 2016j). This change implies that China has now moved beyond the old industries that powered its take-off. Therefore, according to developmental stages suggested by Modernisation Theory, contemporary China has already experienced its take-off and is arguably in the phase of the 'drive to maturity'.

4.3.4 Summary

Contrary to the focus on the disastrous impacts brought by the Great Leap Forward and Cultural Revolution, this study finds that in general, there was some significant progress made during the Mao era. Investments were consistently at the minimum rate of 5 percent of GDP for the building of social overhead capital and the development of agricultural technology, two of which Rostow argues are important to power China's take-off. While there was no private foreign investment during the Mao era, China received loans from the Soviet Union, though on a small scale, to fund her industrialisation program. As a result, China was able to expand its exports and generate surplus. The achievements prior to reform remain a critical contribution to China's take-off. Without these contributions, China would not have progressed at such an amazing rate shortly after its reform. This argument concurs with Reid (2016) who believes that 'much of the resilience of China's later economic development was the result of the initial decades of planned industrialisation' (Reid, 2016, p. 170).

Concurring with Modernisation Theory, economic growth began to pick up as China further liberalised. As FDI flowed in, China's growth was even more rapid. The inflow of FDI is often accompanied by technological upgrading in China. Moreover, the high disposable income retained by Mao's government was important for the transition to a market economy in later years. Reid (2016) has recognised the importance of high savings during the pre-reform era in aiding China's transition to a market economy in later years. Reid (2016, p. 171) maintains that '[i]n the early 1980s, the high rates of savings and central control of investment were crucial in the establishment of initial export processing zones to facilitate technology transfer'. Therefore, China is said to have experienced take-off or in other words has attained economic development and is in the phase of the 'drive to maturity'.

4.4 Conclusion

In accordance with the definition of economic development adopted by this thesis, it is sound to conclude that Modernisation Theory's assumptions are able to accurately depict the Chinese economic experience. On the contrary, Dependency Theory's arguments are not able to explain China's growth trajectories. This is because not only is growth underway in China, but China has been able to develop indigeneous science and technology in their later years of reform. These positive impacts are believed to have come from the expansion in trade and foreign investments as proposed by Modernisation Theory. Moreover, as expected by Modernisation Theory, GDP per capita has risen over the years, qualifying China as a middle-income country. Modernisation Theory maintains that embracing modernisation will not only help in boosting China's economic growth, but will also help China to improve its technological prowess. This is confirmed as studies have shown that the inflows of FDI into China have been accompanied by technology transfer. The state's role is also evident in promoting technological advancement before and after reform. Prior to reform, the agricultural sector was the cornerstone of the economy. As China liberalised, industry became the leading sector and was later gradually replaced by the service sector. Therefore, the analysis confirms that as China liberalises, there is economic development. Hence, there is economic development in China, but does this entail 'catch-up'? The next chapter intends to explore the second research sub-question, 'Is there developmental catch-up in China'?

CHAPTER 5

ASSESSING DEVELOPMENTAL CATCH-UP IN CHINA: MODERNISATION VERSUS THE THEORY OF UNEVEN AND COMBINED DEVELOPMENT

5.1 Introduction

It is a widely held view that China has achieved impressive growth rates throughout the years of opening up and reform. Between 1979 and 1990, China achieved an annual growth rate of 9 percent (Lin, 2012b, p. 213). Since the 1990s, China's growth was much more rapid. Beginning from 1990 to 1999, China's average annual GDP growth stood at 9.9 percent and for the last five years, the figure averaged 7.8 percent (World Bank, 2016b). Morrison (2012, p. 3) maintains that such growth means that China has on average 'been able to double the size of its economy in real terms every eight years'. Similarly, at the start of reform, China had an average income of USD 156 per capita, but by 2015, this grew to USD 8,027 income per capita (World Bank, 2016s). In accordance to the classification proposed by the World Bank, today's China has been classified as an upper-middle income country (World Bank, 2018d). These changes were achieved in just four decades of reform. The first empirical chapter (Chapter 4) shows that China made good economic progress after its reforms and the analysis further confirmed that there is economic development in China. The next question is, is there then developmental catch-up?

Over the years, the concept of development has evolved to mean human development in current development studies (see Chapter 1). Despite this, economic development remains an essential part incorporated in this new concept. As highlighted in the report, 'human development is the end – economic growth a means' (UNDP, 1996, p. 1). This could be interpreted to mean that economic growth is an important element,

without which the end goal – human development − would probably not be achieved. While economic growth is the primary consideration in a country's development, in order to consider a country to be catching up with advanced industrialised countries, the country would need to have sustainable growth/development. Therefore, to assess if developmental catch-up is possible, at a minimum, developing countries need to be able to close not merely the income gap but also the technological gap. Therefore, this chapter needs to assess the income and technological level of China with advanced industrialised countries as well as other aspects that are closely related to these two dimensions. The assessment of developmental catch-up is based on the indicators established in Chapter 1[32].

The remaining chapter is organised as follows. The second section gathers and analyses empirical data to assess the arguments put forward by Modernisation Theory. An assessment is made by tracing China's developmental progress from its reform to the present. Since Modernisation Theory believes that China will close the income gap with the advanced states, eventually leading to developmental catch-up, it is useful then to compare the level of China's economic development to other developed countries notably the US. At the same time, the progress made by China should also be weighed in comparison to the progress made by other developing countries which had similar level of development as China in the 1970s. The third section involves collecting and analysing empirical data to assess the arguments of the Theory of Uneven and Combined Development. This theory argues that China develops along the lines of uneven and combined development, which makes her unable to catch up. First, there is a need to uncover if China undertakes the 'combination' forms in its capitalist industrialisation. Second, there is a need to identify if China's integration into the world capitalist economy produces stark unevenness between China and developed countries as well as within China and also if there is systematic increase in unevenness. The final section is the concluding remarks. The analysis reveals that over time, Chinese development demonstrates convergence in income and technological capacity with advanced industrialised

[32] See Chapter 1 under the section Concept of Development

countries as predicted by Modernisation Theory. What is interesting is that Chinese development pattern has also partly confirmed to the predictions of the Theory of Uneven and Combined Development as China indeed develop in an uneven and combined ways. In fact, uneven development and distribution of wealth is a grave concern within China. Despite taking the 'combination' form, China has the potential for developmental catch-up though not without its challenges.

5.2 Modernisation Theory on China's Developmental Catch-up

As indicated in Chapter 2, Modernisation Theory conceptualises development as a process of 'catching up' for developing countries. By emulating the development strategies of developed countries, developing countries would be able to increase their income per capita, thus closing the gap with developed countries. In this sense, developing countries would achieve catch-up. However, Rostow maintains that it is 'not the absolute level of output *per capita* but its rate of change' that he seeks to explain (Rostow, 1956, p. 27). The determinants of growth are the main elements he wishes to highlight in his account of the stages of growth (Rostow, 1956, pp. 26-27).

In general, for take-off to happen and a country to achieve sustained growth, a country must have one sector or more that is developing rapidly (Rostow, 1956, p. 41). Writing in 1960, Rostow viewed the political revolution led by the Communists in China as the beginning of take-off (Rostow, 1960, p. 36). Rostow suggested the take-off date of China to be 1952, but was quick to note that it was still early to know if the take-off efforts undertaken by the CPC are successful (see footnote Rostow, 1960, p. 38). I would argue that the take-off efforts had been disrupted at least by two events: the Great Leap Forward and the Cultural Revolution. Though China began its industrialisation in the 1950s with expanding trade volumes, its foreign trade remained limited. Furthermore, industrial production in China could not achieve economies of scale, particularly steel production, because it was often powered by small-scale individual plants and obsolete foreign technologies.

Moreover, during the 1950s, basic infrastructures in China such as railway tracks were still lagging behind countries like India (Phalkey & Wang, 2016, p. 103). Therefore, rather than perceiving the 1950s as a take-off, empirical evidence suggests that it would be more appropriate to see it as a stage of 'preconditions to take-off'. This is because in the process of take-off, the introduction and dissemination of new production techniques were interrupted intermittently by bad policies as well as struggles for power within the party. This has, in effect, affected the country's technological progress, particularly in terms of improving production output. Without fulfilling the criteria for pre-conditions for take-off, take-off would not have been possible. Therefore, I argue that take-off in the 1950s had been disrupted.

In order to assess the predictions of Modernisation Theory, specifically by Rostow, on China's catch-up, I first need to identify China's developmental outcomes. First, there is a need to identify whether there has been an increase in the income level in China, and whether it has led to poverty reduction. I shall also examine if it contributes to income convergence and closing the technology gap with other countries. Additionally, I discuss if such outcomes were related to the strategies proposed by Modernisation Theory such as build-up of the three non-industrial sectors accompanied by economic liberalisation (a more detailed discussion of the Chinese development model is undertaken in Chapter 7). The build-up of the three non-industrial sectors were discussed in Chapter 4 in which I confirmed that the Chinese government has devoted a high amount of investment to the build-up of social overhead capital notably transport, agricultural technology, and imports of products including capital.

5.2.1 Income Level

As argued by Modernisation Theory in Chapter 2, one of the important factors to spur the development of developing countries is the availability of capital. The opening-up of the Chinese economy provides an opportunity for foreign investors to set up factories and also for China to strengthen its manufacturing base. In the early period

of reform, foreign investments flow in at a slow pace. More rapid inflows of FDI were observed since the 1990s. In 2014, China was the top destination of FDI (UNCTAD, 2015, p. ix). In 2015, the total inward utilised FDI of China is USD 126.2 billion (National Bureau of Statistics of China, 2016, p. 372). It seems that the increase in manufacturing in China is due to investment liberalisation that took place. As a result, China has became the largest exporter in the world since 2009 (Anderlini & Hornby, 2014). However, as TNCs have shifted their strategy to outsourcing production, specifically to areas that generate higher returns (Bieler & Lee, 2017a, p, 180), the high inflows of FDI into China simply reflects such changes.

Kiely criticised IMF estimates that shows the South has increased its share of the world's total income to 47.9 percent by 2010 as being exaggerated as it was counted using PPP[33] (Kiely, 2015, p. 79). Using estimates by Akyuz (2012, p. 29), Kiely argues that China's share of the world GDP in 2010 was at 7.6 percent, which was still a small fraction of the US share at 26.1 percent[34] (Kiely, 2015, p. 80). While the debate remains unresolved about which method of conversion is the best measure, Figure 5.1 shows that there has been a steady increase in China's share of world GDP from 1979 to 2005 before a sharp rise in the following 10 years based on current US dollars. Li, Y. (2008, p. 2) also contends that the increasing pace of growth in the 1990s means that China's contribution to world GDP growth would become much more significant. Of the world total USD74.29 trillion GDP generated in 2015, China contributed around 14.8 percent (Figure 5.1)[35].

[33] Refer to Chapter 6 of the book by Kiely (2015) for explanation in support of market rates of exchange as the main method of conversion.

[34] Please note that this was calculated using 2005 constant US dollars rather than Purchasing Power Parity (PPP).

[35] The calculations would be slightly different with figures provided elsewhere because of the decimals used.

Figure 5.1 China's Share of World GDP (%)



Source: World Bank (2016l)

Using current US dollars, the method favours by Kiely, China's global share of GDP in 2015 has increased to eight times more than it was in 1979 and by 2017, China's share of the world economy is already more than half of the share of the US (Gray, 2017). While the statistics show that China is still lagging behind in terms of its share of world income, Akyuz contends that China's actual share in world income would be greater than the estimates if the Chinese government had allowed the yuan to rise freely (Akyuz, 2012, p. 29). According to the World Economic Forum, China is second only to the US in terms of its share in world income, overtaking many early industrialised countries such as the United Kingdom and France (Gray, 2017). Some would argue that a great proportion of the GDP of China is contributed by foreign investments and is thus unrepresentative of the real value capture by China. This argument is revisited in the following discussion.

As Rostow encourages expansion of imports, so China since the 1950s has expanded its imports, causing a large trade deficit. In 1957 alone, machinery and equipment accounted for 50 percent of Chinese total imports from the Soviet Union. On the other hand, China has exported mainly its primary products to finance its imports (Central Intelligence Agency, 1959, pp. 7-9). The Soviet Union has also extended loans to support the industrialisation program of China (Central Intelligence Agency, 1959, p. 9). While the agricultural sector remained the leading sector before 1959, the decision by the party leadership to focus on 'catch-up' with Great Britain in steel production enabled industry to take a leading role. However, it was short lived and agriculture again became the main contributor to the GDP of China. It was only after the 1960s that industry again became the leading sector.

While there was some progress during the pre-reform era, including industry staging a strong performance, the technologies China procured were largely obsolete. The inability to bridge the technology gap between China and the rest of the world was recognised by the paramount leader of China, Deng Xiaoping. It was also one of the reasons why I argue China failed to take off earlier. Deng believed the way to bridge the gap is to import and master advanced nations' science and technology (Deng, 1978, October 10). China again began to import foreign technologies and for most of the first two decades, she ran trade deficits before gaining a favourable trade balance since 1990. Statistics show that in the early 1980s the main imports consisted of machinery and equipment, which were important to power China's second attempt to industrialise.

However, this time, instead of trading based on comparative advantage as Modernisation Theory would suggest, China began to move towards self-sufficiency in agriculture while pursuing industrialisation. As a result, the share of primary goods in the total value of imports has gradually shrunk. By 1990, the share had dropped to 18.4 percent from 34.7 percent in 1980 (National Bureau of Statistics of China, 2014). After running years of trade deficits because of the import of machinery and

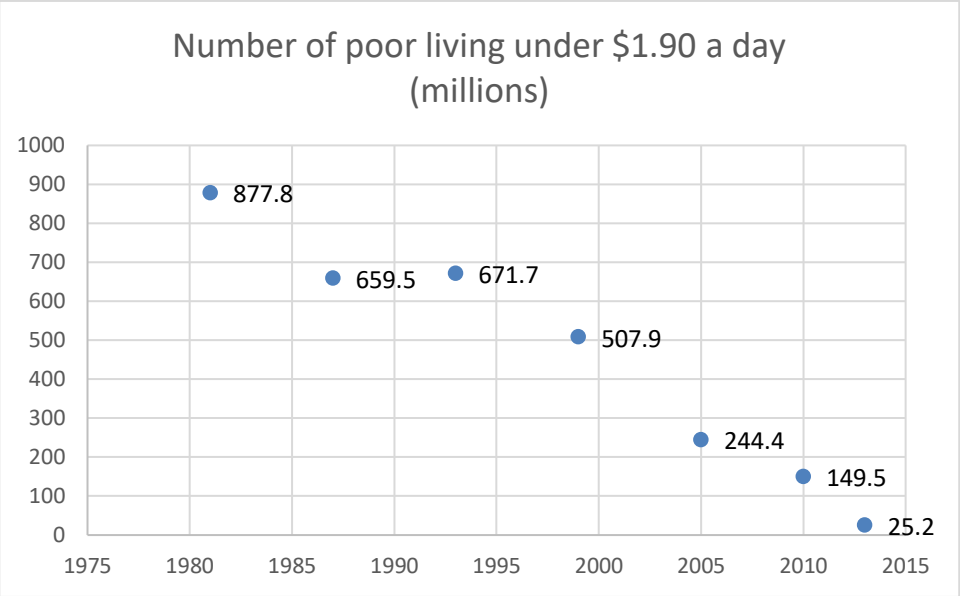
equipment for industrialisation, China began to enjoy a continuous positive trade balance from 1990 onwards due to an expansion in exports.

As Modernisation Theory expects an increase in income level, this theory also believes that such an outcome would contribute to eradicating poverty. One of the less debatable issues is the success of China in lifting millions out of poverty, though many more are still living under dire conditions. At the beginning of the reform, China was primarily an agrarian economy. In 1980, there was 80.6 percent of its population still living in rural areas while the agricultural sector contributed 29.6 percent of GDP[36] (World Bank, 2016o;World Bank, 2016p). As China liberalised, the contribution of the agricultural sector to the economy declined. By 2015, agriculture contributed only 8.8 percent to GDP (World Bank, 2016p). In recent years, one can observe the changing structure of the Chinese economy as service overtakes industry as the main contributor to GDP.

In 2015, services contributed over half of the total GDP (World Bank, 2016i; World Bank, 2016j). This transition suggests that China is gradually moving beyond its 'take-off' stage. Goodbar (2017) from the Bank of New York Melon suggested that China has reached the 'drive to maturity'. As economic growth accelerated, poverty has also declined. In 1990 (based on 2011 PPP), more than half of its population was living under USD 1.90 a day but by 2013 it has been reduced to only 1.9 percent and a year later, it fell to 1.4 percent[37] (World Bank, 2016f). Figure 5.2 shows that since the reforms began in the late 1970s, there were an enormous number of poor people lifted out of extreme poverty. There was, however, a partial reversal observed in 1993. Despite this, in general, poverty incidence shows a strong downward trend in China.

[36] Based on value added approach. Agriculture sector includes agriculture, forestry, and fishing.
[37] 2014 is the latest available data at the point of writing

Figure 5.2 Number of poor living under USD1.90 a day (millions)



Source: Compiled based on selected years from Poverty and Equity database, World Bank (2017a)

Coherent with Modernisation Theory's perspective, overall national growth has also contributed to the rise in income per capita. In 1978, GDP per capita in China was only about USD 156, but fast forward around four decades, and the figure has reached slightly more than USD 8000 in 2015 (World Bank, 2016d). By the World Bank's definition, China is now an upper middle-income country. Though China seems to be replacing old sectors with new sectors, effectively putting her in the 'drive to maturity', its level of income per capita is still far from the level of developed countries. In comparing GDP per capita of China with Group of Seven (G7) countries as well as OECD countries, the figures displays wide income disparities between China and the two of the other groups/organisations. Specifically, in 2017, GDP per capita for G7 was USD 45,125, OECD was USD 38,877 and China at USD 14,948[38], showing a large gap in the income level. Moreover, the income gap

[38] Figures calculated in PPP at 2010 US constant price.

between China and the US was even more pronounced. In 2017, GDP per capita of China was closed to USD 9,000 in current US dollars, which was still far behind the US per capita income of approximately USD 60,000 for the same year (World Bank, 2018c).

The income gap between China and the US, G7 and OECD economies remains wide, which suggest that China has not caught-up with advanced countries in terms of income per capita. Yet, comparing the GDP per capita of China with G7 and OECD countries over time provides interesting insights into how rapidly China is closing the income gap (see Table 5.1). In just twenty years, from 1997 to 2017, the ratio of income per capita between China and the G7 and OECD countries fell from 10 times or more to become 4 times or less. However, in order to significantly narrow the income per capita gap with these countries, there would need to be a further increase in productivity and innovation at the Chinese end.

Table 5.1 Level of GDP per capita of China, OECD and G7 countries

GDP per capita (PPP at 2010 US constant price)						
Country/Organisation/Group	Year					
	2017	2013	2009	2005	2001	1997
China	14, 948	11, 681	8456	5587	3886	2939
OECD	38, 877	36, 377	34, 453	34, 639	32, 294	29, 579
G7	45, 125	42, 683	40, 568	41, 373	38, 935	35, 803

Source: OECD Statistics, 2018

Recognising that the economy can no longer rely on low-value manufacturing to maintain its growth, the Chinese government is increasingly promoting higher-value added activities. In a report by the US Chamber of Commerce, the indigenous

innovation plan introduced during the Hu and Wen administrations aimed to improve Chinese innovation through co-innovation or re-innovation of foreign technologies, but has raised concerns of technology theft (McGregor, 2010, p. 4). Following that, a national scientific and technological innovation plan was issued by the Chinese government with the aim of transforming China to become a leader in science and technology (The State Council PRC, 2016a). China expects to double its 2010 GDP per capita by 2020 and they are well on course for achieving this target. China is also shifting 'from the old ''growth at all cost'' model, which has left air, water and soil tainted, to a sustainable one' (National People's Congress of China, 2016, p. 30). Therefore, high technology and green growth became one of the key priorities for future development. Since China is at the beginning of the 'drive to maturity' as argued by Goodbar (2017), she would further need to boost her innovation and productivity to attain further significant increases in income per capita. When China reaches the 'Age of High Mass-Consumption', China would be expected to reach similar GDP per capita as the developed countries, albeit not equally.

At the point of writing, the development of China has not reached the stage that would allow it to have a similar level of development to the developed countries. Moreover, scholars such as Panitch & Gindin (2013) and Lieberthal (2010) are less optimistic about China catching up with developed countries as they feel China is still far behind the US in many respects. Despite being unable to confirm Modernisation Theory's argument in this respect, in general, my findings suggest that Modernisation Theory presents a convincing story of convergence. Therefore, by assessing China's progress in itself and whether it has contributed to narrowing the income gap between China and developed countries, this thesis would seem to confirm the story of convergence. However, situating Chinese economic development in a global context would require assessment of the progress of other countries over the past years.

5.2.2 Comparison of Chinese development with other countries

In recent years, the discussions of convergence are not limited to China alone. Many economists are optimistic that the South, led by the BRICs, would contribute more to global growth in the future. Economists at Goldman Sachs estimate that in US dollar term the BRICs economies as a whole could possibly be larger than the G6 in less than 40 years if growth remains on the right track[39] (Wilson & Purushothaman, 2003, p. 1). They also projected that by 2050, the per capita income of China would be at the current level of developed economies, at about USD 30, 000 per capita (Wilson & Purushothaman, 2003, p. 2). Despite this, on average, the individuals in BRICs would still be poorer than individuals in G6 economies except for Russia, which is expected to have catch-up in terms of income per capita by 2050 (Wilson & Purushothaman, 2003, p. 2). In 2010, economists projected that there would be about USD 51 billion difference in the increment of the GDP of BRICs compared to G6 economies, but by 2050, the annual increment of BRICs was expected to be four times larger than the G6 economies (Wilson & Purushothaman, 2003, p. 5).

Such optimism around the rise of BRICs was largely attributed to particular countries within BRICs, particularly the fast-growing China. Economists postulate that China's GDP would be at a similar level to Japan by 2020 (Liu, 2008, p. 3). The outcome came faster than economists had expected. In 2007, China overtook Germany as the world's third largest economy, and two years later, overtook Japan as the second largest economy (World Bank, 2016l). If the calculations were based on PPP rather than the exchange rate, China would have overtaken both Germany and Japan much earlier − in 1982 and 1992 (Maddison & Wu, 2007, p. 1). The spectacular growth since reform was not expected by anyone at the outset of transition. When China opened its door to the world, its income per capita (measured in PPP) was less than one-third of the level of the average sub-Saharan African country. Measured in PPP,

[39] G6 consists of the United States, the United Kingdom, Germany, Japan, France and Italy (Wilson & Purushothaman, 2003, p. 3).

China's income per capita in 2008 can fetch up to USD 7,500[40], over three times the level of sub-Saharan Africa (Lin, 2012b, p. 214). Based on the current US dollar, China's per capita income in 2015 was five times larger than the average income per capita of sub-Saharan African countries at USD 1,588 (World Bank, 2016d). Despite the low level of economic development in China prior to reform, Maréchal (2009, p. 2) asserts that Maddison (2007) saw some positive contributions during the Mao era to the Chinese economy. By his calculations, Maddison (2007, p. 69) has proven that 'per capita income rose by 180 percent and labour productivity by 160 percent (p. 69), completely transforming the country's economic structure' (as quoted in Maréchal, 2009, p. 2).

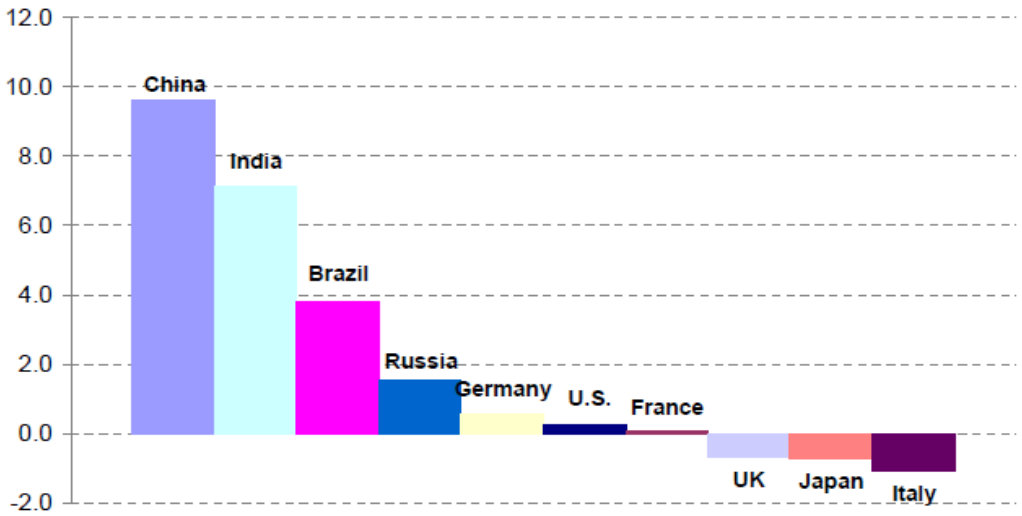
In 1970, the Chinese economy was only 56 percent the size of India's (Asian Productivity Organisation, 2015, p. 18). Despite the traumatic event of the Cultural Revolution, some progress was made and at the start of the Chinese economic reform, China and India had very similar level of GDP. In 1978, the GDP of China in current USD was USD 149.5 billion and India's was USD 139.7 billion (World Bank, 2016l). Both countries experienced growth and at times China's GDP was even lower than that of India. For example in 1987, India fared better than China with GDP of USD 283.9 billion as compared to USD 272.9 billion for China (World Bank, 2016l). As time passed, the economy of India grew but Chinese economy had ascended more rapidly, leaving a huge gap between them. The real difference in GDP was visible by the early 1990s. This is likely to be attributable to the rapid inflows of FDI into China. In 2000, China's GDP is three times the GDP of India, and by 2015, the gap was five times larger (World Bank, 2016l).

As illustrated in Lin (2012b, p. 218), Maddison's (2010) estimation shows that in 2008, China's status relative to the US is similar to the status of Japan in 1951, Taiwan in 1975 and Korea in 1977, relative to the US. Between 1951 and 1971, Japan had an annual GDP growth rate of 9.2 percent, while Taiwan had 8.3 percent between 1975 and 1995. For Korea, there was 7.6 percent annual GDP growth rate between

[40] This was calculated based on PPP

1977 and 1997. At the end of the 20-year period, measured in PPP, per capita income for Japan, Taiwan and Korea had reached at least 50 percent of US per capita income. According to Lin (2012b, p. 218), since China's development strategy is similar to these countries, China has the potential to achieve 50 percent of US per capita income measured in PPP with 8 percent annual growth by 2028. The economic performance of China during the years of crisis showed that China has a much more resilient economy than other major global economies (see Figure 5.3).

Figure 5.3 Average Real GDP Growth among Major Global Economies: 2008-2011 (percent)



Source: Taken from Morrison (2012, p. 5).

While China managed to maintain average growth rates above 8 percent from 2008 to 2015, global slowdown is causing growth rates in China to fall. In 2014 and 2015, GDP growth was at 7.2 and 6.9 percent respectively. Moreover, the 13th Five-Year Plan approved by National People's Congress (NPC) set to achieve an average of 6.5 percent of growth for the next five years. This would enable China's GDP per capita in 2010 to double by 2020 (National People's Congress of China, 2016, pp. 11 & 22). Measured in current US dollars, the GDP per capita of China in 2015 was

approximately 14 percent of US GDP per capita, which means that there is still a significant gap for China to narrow (World Bank, 2016d). If measured in PPP, the gap was smaller, with China's GDP per capita at 28 percent of the US. GDP per capita in 2017 (World Bank, 2018b). Nevertheless, growth below 8 percent would also mean that China will not be able to achieve 50 percent of US per capita income measured in PPP by 2028.

Similarly, the tale of convergence is also supported by a report from the United Nations published in 2015. The report shows income convergence between countries since 1990. This convergence trend is largely attributed to the fast-growing economies of Asian countries, notably by the 'catch-up' speed of China and India. It was said that '[t]he gap in income between the Asian region and developed countries declined from 14 per cent of the average income of developed countries in 1990 to 25 per cent in 2014' (UN, 2015, p. 1). Besides, for the period from 2005 to 2013, China has achieved an average of 9.3 percent labour productivity growth, the fastest in that period (Asian Productivity Organisation, 2015, p. 10).

Despite the remarkable achievements of Asian countries, the income gap between rich and poor countries remains large. This is because income in other developing regions has stagnated or the increment of increase was much slower compared to developed countries. Moreover, global income convergence has masked the problem of increasing inequality within countries. For China, despite income convergence with much richer countries after the market economy reforms, inequality within the country remains one of the biggest challenges to date. Although less emphasised, Rostow contends that in a mature society, per capita income would not necessarily be uniform among nations or, even, among regions within nations (Rostow, 1959, p. 9). In that sense, it is likely that technically mature societies can be both rich and poor. This is the case in contemporary Russia, which is recognised as a mature economy but has a large working class in the agricultural sector and a smaller amount of developed consumer' goods industries for political reasons.

On this account, I do not expect similar level of income per capita between China and developed countries as well as within China. However, economic development cannot overshadow the fact that there is rising inequality at a level that requires much attention in China. Rising inequality is a general trend of global development as observed in both North and South (Kiely, 2015, p. 134). Modernisation Theory argues that deliberate government intervention in allocation of resources will cause larger disparity. Therefore, after market reforms, increases in inequality during modernisation in China are argued by Modernisation Theory to be due to the deliberate actions of the state that channels resources to specific sectors and regions. However, under the command economy with the government prioritising one sector over another, China still developed in a more egalitarian way compared to China after market reforms. As a result, this thesis argues that government intervention in allocating resources may not be the main reasons for the high inequality in China. Instead, it is likely to be caused by the logic of capital. The problem of inequality in China will be discussed in a later section of this chapter.

5.2.3 Technology Gap

As predicted by Modernisation Theory, industrialisation in China accompanied by the opening of the economy would be beneficial for China, particularly from the large amount of FDI inflows. Modernisation Theory expects that the inflows of foreign capital would allow China to acquire the technology needed for the country's industrialisation. In the early stage of reform, FDI that flowed into China was mainly focused in labour-intensive production, which gave doubts whether or not it would bring advanced technology into China (Hart-Landsberg, 2015, p. 5). As such, China has often been dubbed as 'World Factory' that engages in producing various range of low-value products, which raised concerns of China being trapped under low-value production chain.

Therefore, scholars (Breslin, 2005 ; Kiely, 2015) argue that the rise of manufacturing in China is dominated by labour-intensive and low-value production due to the

engagement of TNCs in sub-contracting agreements. Breslin (2005, pp. 742-744) believes China's rise should be situated within its role in East Asian production networks. Since TNCs began pursuing a cross-border production strategy, China is seen to have assumed the position as a regional assembly platform. According to Hart-Landsberg (2013), China's position in the global value chain as an assembly platform is evident in the trade between China and East Asian supplying countries. Hart-Landsberg (2013, p. 34) contends that '[t]he share of parts and components in China's imports of manufactures from East Asia rose from less than 24 percent in 1992-93 to over 59 percent in 2006-7. The import share of parts and components in the machinery and transportation equipment category climbed from 46.1 percent in 1994-95 to 73.3 percent in 2006-7'.

Explaining the reality of Chinese technology development, Cao (2007, p. 6) maintains that 'China has become an important assembly line for products made using key high-tech parts from abroad with the addition of low-tech domestic components'. Zhao & Yang maintain that China's high tech industry has 'weak innovation capacity, low technology intensity and poor economic efficiency' (Zhao & Yang, 2012, p. 289). In addition, Hart-Lansberg argues that wholly foreign-owned enterprises continue to dominate China's high-technology exports. Between 2002 and 2009, the share grew from 55 percent to 68 percent, which Hart-Lansberg (2015, p. 5) sees as 'a tightening of foreign control'. Moreover, indigenous firms have a relatively small share in high-tech exports and saw a decrease of 4 percentage point to 17 percent from 1995 to 2010 (Xing, 2012, p. 8).

Despite the fact that the initial FDI received by China predominantly focused on labour-intensive production, as a result of global restructuring by MNCs, many scholars have acknowledged the spill-over effect of FDI in China. Chen, Lawrence & Zhang (1995, p. 700) contends that FDI in the early 1990s helped to foster the transfer of low and intermediate technologies. The transfer of technology is often accompanied by the transfer of new sets of skills previously unexplored by Chinese firms (Chen, Lawrence & Zhang, 1995, p. 700). Nevertheless, the transfer of

technology is less straightforward than Modernisation Theory would suggest. This is because MNCs often try to maintain their technological competitiveness by restricting the access of developing countries to more advanced technologies (Kiely, 2015, p. 185). As such, importation of more advanced technologies as proposed by Modernisation Theory may not be sufficient for successful technological upgrading as foreign TNCs would often 'lock in' the core technologies to prevent other firms from competing against them. Kiely (2015, p. 47) criticised the neoliberal view on the grounds that it 'underestimates the ease with which dynamic firms can break into world markets, ignores the strong tendencies towards capital concentration, and supports the reversal of policies (such as industrial policy) designed to alleviate these tendencies'.

Despite the restrictions faced by China in moving up the value chain, empirical evidence shows that Chinese firms are gradually taking part in higher-value activities. The latest available statistics shows that the combined share of state-owned enterprises and other enterprises in high-tech exports was slightly more than 30 percent while foreign-funded enterprises accounted for around 69 percent of total high-tech exports for the period of January to May 2013 (MOFCOM, 2013, July 15). The 30 percent share of total high-tech exports accounted by non-foreign funded enterprises signifies that Chinese firms has been able to increase their small share of 17 percent in 2010 (Xing, 2012, p. 8). Moreover, according to Chinese law, 'any firm with 25 percent of foreign share capital is classified as an FIE and an FIE is subject to the regulatory regime of the foreign sector'[41] (Huang, 2008, p. 18). This means that joint ventures also fall under the category of foreign-funded enterprises and this suggests that the foreign control in Chinese high-tech production is probably lower than raw statistics suggest.

Although I am unable to obtain the data for the whole year of 2013, but only for the period of January to May, the share of processing trade in total exports of high-tech products was 61.7 percent (MOFCOM, 2013, July 15) which saw a decline from 80

[41] FIE means foreign-invested firms and it is the same as the term foreign funded enterprises

percent in the year 2010 (Xing, 2012, p. 5). The figure 61.7 percent remains high, but the decline shows that the processing trade is not as dominant as it was in the past in China's high-tech export sectors. More importantly, processing trade is divided into two categories – 'processing and assembling trade' and 'process with imported materials', in which the former accounts for slightly over 4 percent of the 61.7 percent share (MOFCOM, 2013, July 15). This distinction is important as it makes clear that the role of China in the global economy is not only confined to assembling electronic goods for export. Additionally, an article published in 2015 by *The Economist* further highlights the misconception people often have about Chinese production capabilities. It is often thought that Chinese manufacturing is only good for assembling products, and production of higher-value inputs remains in the West and Japan (Jiaxing & Yangon, 2015).

The Economist magazine explains that '65% of the ingredients in goods China sells to the world are made at home, up from 40% in the mid-1990s' (Jiaxing & Yangon, 2015). The change is not so substantial as to suggest big leaps in technological advancement, but it suggests that China is increasingly capable of supplying diversified inputs and forming dense cluster supply chain networks in the production process. Nevertheless, it is almost certain that the upgrading has not reached a point that has allowed China to fully catch-up technologically. At the same time, the increase in domestic contents in exports clearly shows improved skills and technological capacities.

Instead of looking only at trade statistics, another way to understand China's technological advancement is through observation of the changes in the production structure. Yu & Tian's (2012, p. 112) study finds that the varieties of imports has declined over the years indicating 'heightened specialisation, greater domestic intermediate inputs, or both'. These findings indicate that Chinese firms are now capable of supplying parts and components for the processing trade, which originally needed to be imported from East Asia. This argument is further substantiated by the declining expenditures on the acquisition of foreign technology, which is replaced by

rising expenditures on purchasing domestic technologies of high-tech industries. The expenditures for acquisition of foreign technology for China's high-tech industry peaked in 2007 at about RMB 13 billion, but has since decreased almost half to RMB 6.66 billion in 2010. On the other hand, there are rising expenditures to purchase domestic technologies for high-tech industries. In 2005, the fund was RMB950 million and it has reached RM2.13 billion in 2010 (Zhao & Yang, 2012, p. 294). Although the expenditures to purchase foreign technology for high-tech industries remain higher than purchase of domestic technologies, nonetheless, the gradual change suggests that China is shifting its technology sources from foreign to local providers as the technology becomes available domestically.

In a broader context, discussing convergence between the North and the South, Kiely argues that manufacturing exports have increased for developing countries but mainly consist of exports in low-value sectors, putting a limit to convergence even for China (Kiely, 2015, pp. 78-79). There are two arguments put forth by Kiely to argue that there is a limit to China's convergence with developed countries, and one strong justification on why convergence between North and South remains limited, which I later relate to the discussion of the Chinese context. First, Kiely (2015, pp. 46-48) argues that the international environment has changed in a way that does not allow China to have more room for state manoeuvre in the economy. Second, Kiely (2015, p. 46) argues that Chinese firms are hardly globally competitive. Third, Kiely (2015, p. 78) argues that the increasing share of manufacturing exports does not correspond to an increasing share of manufacturing value-added. The arguments put forward by Kiely are here examined in detailed.

While industrial upgrading is possible, because the international environment that China develops now is different from that of the first-tier newly industrialised countries, which had more room for state manoeuvre of the economy and protection of new industries, Kiely believes that it would be more difficult for China to move to higher-value production (Kiely, 2015, pp. 46-48). This is because '[c]ore countries still tend to dominate in high value sectors, with high barriers to entry, high start up

and running costs, and significant skills' (Kiely, 2015, p. 79). Kiely argues that the international environment facing China today had changed, and does not allow for the more interventionist approach used by earlier developmental states. Despite this claim, my observation indicates that China has been able to retain substantial autonomy over its economy as well as its society. As recent development shows, China has introduced tighter regulations to take greater control of the internet. Foreign firms are banned from publishing online contents without approval. Even though Apple maintains that they received prior approval, after just several months of launching its iBooks and iTunes Movies, they were forced to shut down in China (Olson, 2016). The incident is expected to affect the sales of Apple products in China. It is reported that all foreign publishers would now need to publish through a purely local provider (Woollacott, 2016). Moreover, China does not integrate fully in the global financial system (Panitch & Gindin, 2013, p. 153) and has always retained some control over foreign investments within China. Therefore, the Chinese state has considerable autonomy in economic decision-making as their integration is undertaken in a way that allows partial preservation of state power to shape and steer the economy.

Kiely further argues that despite some progress made, Chinese firms are hardly competitive globally. According to Kiely (2015, p. 46), there were only three Chinese firms, all state-owned enterprises, being ranked in Financial Times 500 in the year 2000. In a different ranking by Fortune Global 500, Chinese firms, again all state-owned enterprises were ranked at the bottom of the top ten firms in terms of revenues in 2010 (Fortune, 2010). Nevertheless, things have changed in less than a decade. By 2016, the same Chinese companies have climbed up to the top five spots in terms of their revenues (Fortune, 2016). This suggests that Chinese state-owned firms are gradually taking up bigger share of the world market, indicating increasing competitiveness. Moreover, the Great Firewall of China has given way to the rise of Chinese giant tech companies such as Tencent and Alibaba, which are privately owned. Tencent is the rival of Facebook, but with more services that would allow users to chat, pay, play, and shop while Alibaba is likened to Amazon (Dunn, 2017).

These companies are no longer confined to the Chinese market and are expanding to other markets such as Southeast Asia, indicating Chinese firms' increasing competitiveness.

In discussing the convergence between North and South, Kiely also warns that the increasing share of manufacturing exports does not necessarily correspond to an increasing share of manufacturing value-added. Several sources provided by Kiely shows that while the increase of the share of manufacturing value-added does increase with the share of manufacturing exports, the degree the former increases were less rapid than the latter (Kiely, 2015, p. 78). The difference in the degree of increase is described by Kiely as a result of 'changing global strategies by MNCs and the use of networks of production' (Kiely, 2015, p. 78). The question relevant for this thesis is, 'Does this translate to China's export production?' Kiely argues that only after the 2008 financial crisis was there, convergence between the share of manufacturing exports and the share of manufacturing value-added but only in a few countries and that includes China (Kiely, 2015, p. 78).

However, Hart-Landsberg's (2015, p. 5) argument that the share of high-technology exports in China's export profile continued to be dominated by wholly owned TNCs where the share grew from 55 percent to 68 percent between 2002 and 2009 seems to contradict Kiely's argument. Hart-Landsberg (2015, p. 5) argues that China's increasing world share of high-tech exports does not indicate China's technological upgrading as 'China's contribution is often limited to providing cheap labour'. Empirical data presented by OECD-WTO (2015) instead argues that China has been able to increase domestic content in high-tech sectors. According to the report by OECD-WTO (2015, p. 2), '[i]n 1995, for example, around three-quarters of the total value of ICT exports reflected foreign content but by 2011 this had fallen to just over half, with similar large declines seen in other hi-tech sectors, such as Electrical Machinery and Transport Equipment'. This means that Chinese-made parts have been increasingly used in the production of high-technology exports in wholly foreign-

owned enterprises. Therefore, I argue that understanding Chinese high-technology production by looking at the type of ownership has its limitations.

Additionally, UNCTAD examines the content share of the top 25 global exporters to find that China has as high as 70 percent of domestic value added trade share, second only to the US domestic value added trade share at 89 percent (UNCTAD, 2013, p. 9). While China engages in various processing activities that may require importing intermediate inputs, nonetheless, among the top 25 global exporters, China exhibits a stronger internal supply chain than most economies except for the US. Moreover, Koopman, Wang & Wei's (2008, p. 17) study demonstrated the general pattern of increasing domestic content in Chinese exports. The share saw an increase from 1997 to 2002, before declining in 2006. They contend that the decline of domestic content in 2006 was not due to the inability of Chinese firms to add value. According to Koopman, Wang & Wei (2008, p. 18), 'exports from industries with relatively lower domestic content often grow faster due to dramatic inflow of foreign direct investment, the composition of a country's total exports may play as an offsetting factor to reduce the share of domestic value-added in the country's total exports, as the case of China after its WTO entry'.

Moreover, as China has opened up its economy by engaging in labour-intensive production mostly carried out by TNCs, the image of early production patterns is frequently associated with present Chinese production. However, the data by custom clearly indicates that export of traditional labour-intensive products account for only 20.8 percent of the total export value in 2016 (General Administration of Customs People's Republic of China, 2017). In a more recent joint publication between the OECD and WTO (2015), the changes in the foreign value-added content in the gross exports of China is traced for the years 1995 and 2011. What is interesting is that the report shows that foreign value-added content had actually decreased over the years, specifically in some key areas such as ICT & electronics, electrical machinery, and motor vehicles, which are often regarded as high-tech sectors (OECD-WTO, 2015, p. 2). The changes suggest 'an increasing ability to upgrade within the value-chain,

either through increased specialisation in higher value-added activities or increased participation (spill-overs) in domestic value-chains by upstream intermediate suppliers or indeed both' (OECD-WTO, 2015, p. 2). This finding by the OECD and WTO had meant that China is able to gradually move into higher value-added production. This suggests that to assess China's industrial upgrading, scholars need to take into account both trade statistics as well as changes in both domestic and foreign value-added contents in Chinese exports over time for a better understanding of China's position in the global economy.

Although not directly related, the trend observed by Hart-Landsberg is rather interesting. He observes that the Latin American export structure has reverted to one that is based on exports of primary commodities and similar conditions apply to sub-Saharan Africa, which is seen to have undergone deindustrialisation (Hart-Landsberg, 2015, pp. 6-7). He argues that this is attributable to Chinese FDI and export activity that reinforce the position of both Latin America and sub-Saharan Africa as the main primary commodity exporters for China (Hart-Landsberg, 2015, p. 7). This suggests that expanding Chinese exports have increasingly displaced the world's share of final goods exports by other developing countries. Considering bilateral relations between China and these countries, one can see that China has moved from low-productivity jobs towards higher-productivity jobs in the manufacturing sector, while these countries have moved in the opposite direction. This is because the complex restructuring of global production 'aided by governments, has knitted together third world economies in ways that reflect the interests of leading core and third world country capitalists as well as their allies' (Hart-Landsberg, 2015, p. 7).

The World Economic Forum compares the revenues of businesses with those of the world's economies. It shows that some global corporations are able to generate larger revenues than countries. Walmart, an American MNC, has generated enormous profits that ranked it as the world's 10th biggest economic entity. If we assume these corporations to be countries, then BP would be the 27th and Apple the 25th biggest countries in the world, bigger than Switzerland and Belgium respectively. What is

interesting in the comparison is that the State Grid, China National Petroleum and Sinopec Group, all Chinese state-owned companies, ranked as the 14th, 15th and 16th biggest countries in the world, overtaking both BP and Apple (Myers, 2016). This explains that although part of Chinese manufacturing fall within the processing trade, this does not restrict Chinese firms in other sectors from being globally competitive, in terms of generating revenues.

In the global restructuring by MNCs, China was initially located at the lower end of the production chain, which gave little hope for industrial upgrading. This was the nature of FDI that flowed into China to take advantage of low-cost production. However, as much evidence has pointed out, there is clearly gradual industrial upgrading observed in China, greatly assisted by the Chinese government. This argument is also supported by a quantitative study using the Chinese customs database conducted by Jarreau & Poncet (2009) for the 1997-2007 period. They find that while it's true that the processing and assembly sector is virtually dominated by foreign-invested companies that produced export products with a higher sophistication level, at the same time, they find that domestic companies in ordinary trade were able to demonstrate a significant upgrading of the technology level of their exports, which allows them to venture into new markets, for example machinery and electronics[42](Jarreau & Poncet, 2009, p. 43). Their distinctive contribution to the understanding of Chinese trade was that they are able to present clearly the 'dualistic' nature of Chinese trade. I argue that the outcome is partly shaped by strong government interference in ensuring that there is an opportunity for Chinese firms to take part in higher-value activities.

The comparison made by the World Economic Forum clearly shows that Chinese SOEs have been reaping huge profits. This can only be done through expansion of their markets beyond China. Therefore, Kiely's claim about Chinese firms being hardly globally competitive should be reconsidered. It can also be observed that

[42]Domestic companies were mainly in ordinary (non-assembly) trade so measurement about technological level is more straightforward compared to in processing and assembly trade dominated by foreign invested companies.

Chinese enterprises have increasingly expanded to overseas market. The result comes largely from the 'Going Global Strategy (zhouquchu)' promoted by China (Lee, 2009, p. 9). In the early years of implementation, it was mostly SOEs that expanded to overseas markets, but it has since included many Chinese private companies such as Lenovo which has purchased IBM. In the fourth quarter of 2016, four Chinese mobile phone companies have jointly captured close to 50 percent share of India's smartphone market, the second largest smartphone market in the world (Perez, 2017). 'Going Global' intends to promote product diversification and brand recognition, transforming from 'Made in China' to 'Made for China' (Chinese enterprises enter 'Go Global' era 4.0, 2016). The success of going global strategy is attributable to the strong government backing that has been incorporated into economic policy[43].

As Hout & Ghemawat (2010) argue, although policies adopted by China such as forced technology transfers, mandatory joint-ventures and domestic-content requirements are similar to the Asian development strategies, the remarkable fact is in 'how aggressively [China] applies these policies, how many of its agencies are involved, how quickly and radically it changes the rules, how many unique technology and product standards it tries to impose, and how subtly its regulations violate the spirit, if not the letter, of multilateral agreements'. One of the ways the Chinese government has worked around WTO policies of prohibiting mandatory technology transfers is by arguing that the exchange of technology for market access is based purely on commercial interest (Hout & Ghemawat, 2010). Similarly, although China has to comply with WTO rules, in selected industries, subsidies and high tariffs remain. Most importantly, capital control is maintained (Kiely, 2015, p. 39). Similarly, the Japanese state maintained control over flows of capital throughout the 1950s and into the 1960s (Ohno, 2006, p. 168).

In China, the role of the government in facilitating the transfer of technology is also important. The Chinese government greatly encouraged the type of FDI that could

[43] See Lee (2009) for further information on the ways the Chinese government has promoted this strategy.

introduce new and advanced technologies into China. One of the examples was permitting FDI in certain telecommunication projects, which fall into the high-technology category (Chen, Lawrence & Zhang, 1995, p. 700). Also, in the early 1990s, the majority of FDI comes in the form of joint venture and joint exploration in strategic industries that aid the learning and adaptation of foreign technologies and knowledge (Tseng & Zebregs, 2002, p. 13). Chinese firms could also benefit through cooperating or merging with foreign companies which have cutting-edge technology. Sectors identified as important in Chinese policy are also given support by the government. For instance, the Linux operating system and related applications were given privileges in government procurement (Cao, 2007, p. 12).

In the Chinese context, the government was seen as less efficient in protecting intellectual property rights in the early days of its reforms. This has in fact boosted the capacity for incremental innovation of Chinese firms. Approximately three-quarters of all imitations come from China, ranges from simple household goods to complex electronic gadgets (Gassman, Beckenbauer, Friesike, 2012, p. 17). Counterfeit items are not only sold domestically but are increasingly being exported to other countries. This scenario causes significant profit loss to the original inventor and could inhibit the R&D activities from taking place. The losses were reported to be billions a year for trademark and brand owners in China (Chow, 2000, p. 3). It was alleged that some local governments were reluctant to crack down on counterfeiting activities. This is because, although taxes were not paid for the sale of fake goods, the counterfeiting industry is found to create jobs (OECD, 1998, p. 22). Chow (2000, p. 14) also argues that counterfeiting activities have been so significant that it supports local economies. Local provincial governments often ignore the illegal activity of counterfeiting especially if it involves counterfeiting products of international brands. At times, local governments were responsible for creating the distribution network for counterfeit goods (Chow, 2000, p. 4).

The capacity of China to rapidly re-innovate should not be taken lightly. According to Abramovitz (1986, p. 388), the potential for rapid growth in a country relies not on its

backwardness alone but also on its absorptive capacity. The report by McKinsey Global Institute refers to China as an 'innovative sponge', which has systematically mastered technologies and acquired the needed knowledge as she industrialises (Woetzel, et al., 2015, p. 20). China's sophisticated manufacturing networks allow re-innovation (imitation) at speed, and has become a distinctive way of adding value (Bound et al., 2013, p. 8). The combination of low wages and the ability to imitate at a fast speed allows China to obtain increased profits.

Moreover, China has expended 2 percent of GDP on expenditure for R&D since 2014 (National Bureau of Statistics of China, 2016, p. 638). There were also reportedly several breakthroughs in science and technology. The World Intellectual Property Report published in 2015 discloses that China has emerged 'as an important origin of patents in 3D printing, nanotechnology and robotics' (WIPO, 2015, p. 13). Moreover, China is the only developing countries out of the five mostly developed countries to participate in the decoding of the human genomes (see footnote Cao, Simon, Suttmeier, 2009, p. 254). Previously, the world's fastest supercomputers built by China were run almost entirely by processors made by Intel. Amidst the competition between China and the US to produce the world's fastest supercomputers, the US government banned the sale of chips by Intel and NVidia to Chinese supercomputers centres on grounds of national security (Pagliery, 2015). This restriction brought about Chinese-designed-and-made processors that powered the Sunway Taihulight, the fastest supercomputer in the world. This achievement indicates China narrowing the technology gap with other advanced countries in the high performance computing (HPC) field (Xinhua, 2016, November 14). Also, HiSilicon, a subsidiary of Huawei has successful developed made-in-China chips. This development is said to challenge the dominance of Qualcomm Inc of the US and MediaTekInc of Taiwan, the two largest suppliers of mobile chips (Gao, 2016).

Progress has also been observed in the increasing number of patents granted in science and technology as a result of increasing R&D expenditure. The patents granted has reached 359, 000 pieces in 2015, up from 233, 000 pieces last year

(National Bureau of Statistics of China, 2016, p. 638). This signifies a big leap in the path of innovation as there were only 13,000 patents granted in 2000. Despite the dramatic surge in the number of patents applied for and granted domestically, on a global level, the number of patents granted to China still falls behind the US. According to the Center for Strategic and International Studies, the triadic patents[44] granted to China was always below 2000 in a calendar year, while the US are able to have at least 10, 000 triadic patents secured per year (Center for Strategic & International Studies, 2016). What is interesting is that China has being granted more triadic patents than the United Kingdom for two consecutive years - 2012 and 2013 (Center for Strategic & International Studies, 2016). The comparison with the US and the United Kingdom reinforces the position taken in this thesis that China has made good progress in its catch-up path, but substantial efforts are still needed before China can truly catch up.

It should also be noted that the number of utility and design patents filed in China is always greater than the number of invention patents. There were about 638,513 patents filed by Industrial Enterprises above Designated Size in 2015, but invention patents account for less than 250,000 (National Bureau of Statistics of China, 2016, p. 641). Fang, Lerner & Wu (2017, p. 2456) argue that invention patents generally have more innovation value as compared to other types of patents. Similarly, based on the share of global revenue in 2013, China is found to lag behind in science and engineering innovation but has thrived in efficiency-and-customer-driven innovation (Woetzel, et al., 2015, p. 38). China's market-oriented innovation strategy has been confirmed earlier by Liu (2008). Liu (2008, p. 11) argues that technology development is not the critical factor for the fast-growing and leading firms in China, but local market knowledge that allows them to respond to market needs swiftly is the main factor in their survival.

[44] Triadic patents are applied jointly to Japanese Patent Office (JPO), US Patent and Trade Office (USPTO), and the European Patent Office (EPO).

Using the Revealed Comparative Advantage (RCA) method to measure the competitiveness of China's high-tech fields in the world, Cao (2007, p. 5) finds that the only high-tech sector that has gained international standing is the 'office and computing machinery' category. In 1980, RCA in this category had a low reading of 0.076, but this sector has since increased its trade competitiveness to 1.30 in 1998 (Cao, 2007, p. 5). The lack of high-tech invention is also realised by Chinese leaders. Speaking in a Science and Technology Conference, President Xi highlights the dependence of China on the import of high-end supply and urges scientists to venture into research on core technologies (Xinhua, 2016, June 1). Nevertheless, Woetzel et al. (2015, p. 1) believe that 'China does have the potential to become a global innovation leader'. This has been partly realised when China was placed in the top 25 on the Global Innovation Index in 2016, the only middle income country on the list (WIPO, 2017).

Apart from depending on the transfer of technology from TNCs, Chinese enterprises also began to invest in R&D activities. While in the past R&D were mostly undertaken by the government, in recent years, the role of industrial enterprises has expanded with over 70 percent of R&D performed and funded by industrial enterprises (Springut, Schlaikjer & Chen, 2011, p. 21). Chinese companies such as Huawei Technologies and Petrochina were both ranked in the top 100 R&D spenders (UNCTAD, 2010, p. 6). The total expenditure of R&D in 2015 has reached RMB 1416. 9 billion, an increase of 8 percent in just a year (National Bureau of Statistics of China, 2016, p. 638). According to the estimate of the US National Science Board, the growth in China's R&D investment at 18 percent annually compared to just 4 percent in the US would mean that by 2019, China will overtake the US as the largest spender on R&D (Fannin, 2018). The Chinese government has also identified seven sectors deemed important to national security and economic competitiveness, which includes the fields of information technology and engineering. Under the National High Technology Program (863), these sectors receive funds by the government for research (see Permanent Mission of the PRC to the UN, 2014).

In recent times, massive attention has shifted to Shenzhen-based Da-Jiang Innovations (DJI), a leading drone maker that has captured 70 percent of the global consumer drone market (Mac, 2015). These drones are meant to be used as more than just toys and DJI has developed new models that can be used for targeted spraying of crops. Though DJI may face fierce competition from conventional military drone makers, which are much more technologically advanced, DJI's Andy Pan believes that they could still be leading the industry simply because 'they take five to six years to introduce a new model whereas we take five to six months' (The Economist, 2015, April 11). Therefore, speed and efficiency are essential in the commercial race and this is something the Chinese companies are good at. While in the past, Chinese firms specialised as Original Equipment Manufacturer (OEM) for foreign smartphone brands, but in the last decade or so, some firms have begun to introduce Chinese smartphone brands. Companies such as Lenovo, Oppo and Vivo began to capture large domestic market share but also foreign market share (Perez, 2017).

Though the ability to absorb and adapt foreign technologies is essential, it has now reached the point where China needs innovation in core technologies to ensure healthy and sustainable economic development. Acknowledging that there is a big gap in innovation, the Chinese government has launched a long-term comprehensive plan 'to become an innovative nation by 2020 and a global scientific power by 2050' (Springut, Schlaikjer & Chen, 2011, p. 6). The Chinese government's seriousness in becoming an innovative country can be observed from its massive spending on scientific research and experiments. In 2015, the total amount of 1.42 trillion yuan (USD 213.4 billion) was spent for this purpose (The State Council PRC, 2016a) Moreover, in order to gain access to core technologies, Chinese firms have started to buy out foreign tech companies backed by Chinese state capital. These attempts were sometimes blocked by foreign governments over national security concerns (Kollewe, 2017). While China is gradually shifting to a service-based economy, the manufacturing sector remains an essential part of the economy. The national initiative 'Made in China 2025' is one of the most progressive initiatives that could step up China's competitiveness in the global economy.

While consumers around the world are used to seeing the 'Made in China' label on products, it is often equated with cheap and low-quality products. Therefore, Premier Li Keqiang has launched campaign stressing the diversification of the range of products, improvement in quality, as well as utilisation of branding for Chinese brands to be recognised globally (The State Council PRC, 2016b). Offering his opinion, a senior adviser to a worldwide consulting firm, contends that Chinese companies would become strong global leaders in certain key industries due to support of the Chinese state in these key areas (Orr, 2015). In particular, semiconductors, green energy and technology are industries being prioritised by the state. Dodwell argues that the trade war initiated by the US is aimed at targeting 'Made in China 2025', which might challenge the dominance of the US (Dodwell, 2018).

Moving towards economic development that takes into account the environment, the coal industry will be severely impacted. One of the goals of Chinese policy is to reduce the usage of unwashed coal in relation to washed coal, which is more environmentally friendly. By 2020, the washing rate should reach 90 percent, equivalent to the level of some developed countries (Leung, 2015). Industries were required to cut down on their coal consumption in the process of production. This would mean that factories would need to upgrade their production lines and invest in equipment to produce similar level of output with less coal used. Modernisation Theory is correct in the sense that FDI did help to diffuse and disseminate advanced technologies through various mechanism but often with the 'encouragement' of Chinese government. Moreover, pure application of foreign technology would inhibit China's indigenous development, which is essential for sustained growth and catch-up. Only if China is able to boost its productivity through innovation would developmental catch-up be achieved. Government support in boosting innovation is essential, but there are challenges that need to be overcome before a desirable result can be achieved.

5.2.4 Summary

Empirical findings reveal that the predictions of Modernisation Theory about Chinese developmental outcomes are right. Particularly important is the build-up of social overhead capital during the Mao era which has better prepared China for its open door policy in later years (see Chapter 4). Following the market reforms undertaken in the late 1970s, there is an increasing income level and declining poverty rate that have contributed to narrowing the economic gap between China and developed countries. There are successful examples of Chinese firms such as Huawei which are able to compete globally and obtain large market share. When assessing China's economic achievements from the global perspective, the macroeconomics data clearly points to the convergence story as predicted by Modernisation Theory. While in the early days of reform, the Chinese economy contributed less than 2 percent of the world GDP, by 2015, the figure has risen to over 14 percent. Despite that, at the point of writing, by the World Bank's standards, China is an upper middle income economy. This means that China has not yet attained a similar development level to the advanced industrialised countries suggesting that China is still in the transition phase to achieve modernity in the terms of Modernisation Theory. However, as discussed in Chapter 7, the developmental outcomes cannot be ascribed entirely to the development model proposed by Modernisation Theory. In fact, the findings in Chapter 7 confirm that China's developmental success is owed to a combination of market forces and state shaping of the economy.

Besides, the aggregate data used to assess the arguments of Modernisation Theory masks an underlying problem in the development of China, which is inequality. The growing problem of inequality within China has partly been attributable to the market-friendly policies of encouraging foreign investment advocated by Modernisation Theory. As foreign investment concentrates on specific regions and sectors, this subsequently enlarges wealth inequality between people. In this sense, Modernisation Theory fails to capture the inequality that has accompanied the modernisation of the country. Moreover, the emergence of global production

networks that placed developing countries such as China at the lowest level of the value chain and which may place limits on its growth and technological upgrading has not been captured by Modernisation Theory. While FDI has contributed to the economic growth of China, it has to a lesser extent contributed to China's technological development.

Modernisation Theory also did not identify the challenges that would be faced by developing countries in the process of modernisation. In particular, the expansion of imports of capital, foreign technologies and materials needed for industrialisation as well as exports of raw materials as a way to finance its imports have its underlying problems. The strategy of relying too much on exports of raw materials undermine the a country's ability to move to industrialisation. This was the case in Sub-Saharan Africa, which is seen to have undergone deindustrialisation (Hart-Landsberg, 2015, pp. 6-7). Moreover, Modernisation Theory has assumed that MNCs are more than willing to transfer advanced technologies to the recipient countries. The process of technology transfer is presumed to be automatic alongside inflows of FDI into the host countries. In reality, core countries with leading MNCs restrict China's access to their core technologies in order to maintain their competitive advantages. One of the examples provided was the US ban on selling chips to China for its development of supercomputers. There is also the possibility of continued dependence on access to permitted foreign technology either through buying or paying royalties and licencing fees, which is not highlighted by the theory. Even though China demonstrates a capability to upgrade its industry, China is still one of the largest developing countries to make payments to US firms for the use of its technology (UNCTAD, 2010, p. 11).

Instead of trading based on comparative advantages, China has moved to self-sufficiency in agriculture, thereby cutting down imports of agricultural products. Modernisation Theory rightly points out that market-friendly policies are better for the economy, but in the case of China, it has proven that gradual and selective liberalisation of the economy undertaken together with a strong state role that shapes

national champions is good for a country's progress. More in-depth discussion about Chinese economic policies will be explored in the last empirical chapter (see Chapter 7). Therefore, the argument maintained in this chapter as well as throughout the thesis is that China's economic success and its position moving towards catch-up (but yet to achieve developmental catch-up) are attributable to selective rather than comprehensive liberal economic policy[45]. Nonetheless, the build-up of the three non-industrial sector, social overhead capital, agricultural technology, and imports proposed by Rostow were important for Chinese industrialisation. The importance of building up these three non-industrial sectors were confirmed in Chapter 4. Consistently high investment in ports, roads and railways has made transportation easier, which is important for manufacturing industry. However, it should be noted that while China has welcomed foreign investment (capital imports), the economy is not entirely open to foreign capital even today.

5.3 The Theory of Uneven and Combined Development: China could not catch-up

The Theory of Uneven and Combined Development echoes Modernisation Theory's argument that there is economic development following China's integration into the global economy. This theory argues that backward states such as China are able to appropriate the advances created by developed countries for their own development. However, very often, these backward states fail to repeat with exactitude the capitalist developmental path taken by advanced capitalist countries, and thus, they develop along the lines of uneven and combined development. Countries that develop along the lines of uneven and combined development would not be able to fully catch up with advanced industrialised countries, but are only able to develop partially (see Chapter 2 for detailed explanation of the Theory of Uneven and Combined Development). Therefore, the Theory of Uneven and Combined Development argues that China is bound to develop in an uneven and combined way because of the way

[45] The China Model and its policies are discussed in detail in Chapter 7.

she is integrated into the world capitalist system, and this asymmetrical insertion does not allow her to catch up with advanced capitalist states.

In this era of monopoly capitalism (Amin, 1976, pp. 100-102), capitalism evolves and seeks new ways to maximise profits. As a result, capital will necessarily flow to places where the rate of profit is higher. Therefore, foreign investment will flow into China to take advantage of its cheap labour. This has been shown in Chapter 4 which discussed the massive inflow of FDI into China, particularly since the 1990s. In addition, Chapter 4 indicated that there is economic development in China. While Modernisation Theory believes the integration of China into the global economy through its open door policy will allow developmental catch-up in China, the Theory of Uneven and Combined Development is less optimistic about this outcome. This theory argues that development in China is combined with development in the global economy. This gives rise to inflows of FDI into China, which bring about new production forms that when combined with traditional agriculture alters existing social relations in China. As a result, there will be major unrest. Moreover, the nature of FDI that flows into China is predominantly focused on the production of low value-added products. As a result, the level of development of China in contrast to advanced industrialised countries is highly uneven. Furthermore, the concentration of FDI in areas which generate higher rates of profit intensifies the unevenness within and between regions/sectors in China.

In order to assess the predictions of the Theory of Uneven and Combined Development regarding Chinese development, this chapter first needs to ascertain whether Chinese development had taken the 'combination' form because its development after economic reforms in the late 1970s relied on foreign capital and importation of technology (Davidson, 2006b, p. 212). Whether it took a 'combination' form could be assessed by looking at whether the new production forms introduced through foreign capital when combined with traditional agriculture had resulted in major unrest. Also, if China has developed along the lines of uneven and combined development, it is expected that its level of economic development

when compared with advanced industrialised countries is highly uneven. In addition, there is also unevenness between regions and sectors within China. As contended by Bieler & Morton (2014, p. 38), not only is developmental catch-up not possible, but 'a continuation and extension of unevenness is the norm'. Therefore, we would not only expect the level of economic development between China and advanced industrialised countries and within China to be highly uneven, but would also expect to see the unevenness persist with a systematic increase in its unevenness.

5.3.1 'Combination' form of Chinese Development?

As presented in the section on historical background of China in Chapter 1, the core leadership of the CCP decided to shift away from the command economy to one that embraces market forces. In the late 1970s, under the lead of Deng Xiaoping, China reformed and opened up its economy to the outside world. China's opening-up coincided with 'neoliberal turn in the advanced capitalist world' (Harvey, 2005, p. 121). That was the historical timing where development in China is combined with the development of global economy. With cheap and abundant labour as its comparative advantage, China became the new site for labour-intensive production, a result of the relocation of capital by MNCs in search of a higher rate of profit. In the 1990s, more rapid inflows of FDI into China were observed (see Chapter 4), and Chinese development has become increasingly dependent on foreign capital. Davidson (2006b, p. 212) notes the role of foreign capital and imported technology as well as the 'limited geographical implantation of capitalist industry' that compels states to undertake the process of uneven and combined development.

As predicted by the Theory and Uneven and Combined Development, the industrialisation in coastal areas based mainly on FDI when combined with traditional agriculture in rural areas has altered the existing social relations in China. People in the countryside leave for urban areas to become migrant workers in view of new opportunities provided by foreign investment. These migrant workers are often

subjected to super-exploitation by foreign capital as well as emerging domestic capital. This new combination has proven to be unstable and has disrupted political stability as the super-exploitation of workers in cheap labour production facilities brought about a wave of strikes and protests since the 2000s (Bieler & Morton, 2018, p. 181). Such major unrest, which arises from China's insertion into the global capitalist system, has threatened state industrialisation as well as intermittently disrupting the process of capital accumulation.

Therefore, Chinese development exhibits the 'combination' form argued by the Theory of Uneven and Combined Development. This theory further argues that China that develops along the lines of uneven and combined development would not only exhibit great unevenness in its levels of economic development with advanced industrialised countries. Development within China would also be highly uneven. Moreover, under the capitalist system, competition would further intensify the difference between and within different states. Kiely (2012, p. 240) observes that capital accumulation within and between countries is an uneven and combined process. As a result, if the Theory of Uneven and Combined Development has rightly conceptualised Chinese development, we would expect to see the level of economic development between China and advanced industrialised countries to be highly uneven, and the unevenness would further intensify with the passing of time. Similarly, development within China notably the development in regions and sectors would be highly and increasingly uneven.

As discussed in Chapter 2, there are three forms of unevenness as argued by the Theory of Uneven and Combined Development. First, there are uneven levels of development between China and advanced industrialised countries because of the new international division of labour that has prompted China to specialise in its low-wage comparative advantage. Second, there is unevenness between different regions because of the 'limited geographical implantation of capitalist industry' (Davidson, 2006b, p. 212). Some regions would experience much more development, while other regions would fall behind because of the uneven diffusion of capital. Third, there is

unevenness between different sectors/industries as a result of the uneven distribution of FDI. Most importantly, there needs to be a systematic increase in the unevenness between China and advanced industrialised countries as well as within China to prove that the predictions of the Theory of Uneven and Combined Development are correct, i.e. that China is unable to catch up.

5.3.2 Unevenness between China and developed economies

Comparing China's current level of development with developed economies, one can see that there is indeed a wide disparity in their GDP, particularly if we are assessing GDP per capita. Based on statistics provided by the World Bank, there is a huge income per capita gap between China and the US as argued by the Theory of Uneven and Combined Development, but when the changes in GDP per capita between China and the US are assessed over time, the picture clearly shows convergence. The statistics below show that the income gap between China and the US has continued to widen during the pre-reform period, but after the economic reforms in the late 1970s, the gap has increasingly narrowed. In fact, in four decades, GDP per capita in China has seen a dramatic increase to allow the gap between China and the US to be as small as 7 times in 2015. Measured in current US dollars, in 1960, US with GDP per capita of USD 3007 was 34 times larger than the GDP per capita of China, which stood at merely USD 89. In 1978, the gap was approximately 68 times. After reforms with some variations between the years, generally the gap between the US and China had narrowed profoundly. By 2000, the gap between them was 38 times, and by 2010, the difference was just 11 times. By 2015, the gap was as small as 7 times (World Bank, 2016d). Moreover, as the analysis shows above, there is income convergence between China with more advanced economies[46].

The Theory of Uneven and Combined Development can argue that, despite the income convergence, China's GDP per capita in 2015 was still only 14 percent of the

[46] Refer to analysis in Section 5.2.2 under Modernisation Theory.

US's GDP per capita (World Bank, 2016d). This indeed shows that the income gap between China and developed economies is highly uneven, but it does not correspond fully to what the Theory of Uneven and Combined Development has suggested. While unevenness remains, the gap has consistently narrowed over the years, suggesting that it is possible for China to continue to further close the income gap[47]. Economists at Goldman Sachs predict that by 2050, China would reach developed economies' current level of income per capita at about USD 30,000 (Wilson & Purushothaman, 2003, p. 2). This postulation indicates that while China has not caught up with developed economies at this point in time, it is possible that China would join the ranks of high income nation by 2050 in accordance to World Bank's standard.

The Theory of Uneven and Combined Development has rightly argued that the productivity level between China and advanced industrialised countries is highly uneven as the labour productivity of China was only 18 percent of the US level in 2013 (Asian Productivity Organisation, 2015, p. 62). This essentially means that there is very large labour productivity gap between China and the US. However, when changes in the rate of labour productivity are traced, data shows that 'China achieved the fastest labour productivity growth of 9.3 percent on average per year in 2005-2013….compares with the US's 1.1 percent' (Asian Productivity Organisation, 2015, p. 10). In this sense, evidence suggests that although the gap in labour productivity between China and the US is still highly uneven, but it is gradually converging.

In order to gauge Chinese innovation, TFP is seen as a better measure as it is not affected by the addition of inputs but only by improved technologies and more productive processes. Wei, Xie & Zhang (2016, p. 8) contends that before 2008, the major contributor to GDP growth was the growth of TFP, which typically accounted for at least 20 percent of the total growth except for a brief period in 1989-1991[48]. Ever since the global financial crisis, the Chinese government has favoured an

[47] The position maintains in this thesis is that there is potential and possibility of developmental catch-up for China, albeit not without its challenges.
[48] Affected by the Tiananmen Incident.

investment-driven stimulus package to sustain growth. Yet, after 2012, GDP growth began to decline and became moderate. Despite that, for the period of 1970-2013, on average, China's TFP growth was 3.1 percent while TFP growth for the US was at 0.8 percent (Asian Productivity Organisation, 2015, p. 10). These estimates show that TFP growth has contributed 36 percent to Chinese economic growth (Asian Productivity Organisation, 2015, p. 74). China's TFP increase over time implies that there is application of new methods of production within China, albeit unevenly. However, it would still require substantial efforts to close the difference between China and the US's technological capacity.

The Theory of Uneven and Combined Development argues that the level of development between China and advanced industrialised countries will not only be highly uneven, but will experience a systematic increase in its unevenness. Therefore, the Theory of Uneven and Combined Development has rightly predicted that economic development between China and advanced industrialised countries, notably the US, is highly uneven, but such difference does not necessarily mean that convergence is not possible, as has been the case in China.

5.3.3 Unevenness between regions within China

In parallel to the arguments of the Theory of Uneven and Combined Development, there is unevenness between regions within China. Additionally, there has been a systematic increase in the unevenness between regions as a result of uneven capital diffusion, which was asserted by both Wei, Yao & Liu (2007, p. 5) and Huang, Kuo & Kao (2010, pp. 278 & 282). FDI is mostly concentrated in the eastern region which alone has contributed more than 50 percent to China's GDP since 1979 and in the subsequently 25 years (Wei, Yao & Liu, 2007, p. 7). Essentially, the pattern of consumption is parallel with the share of FDI received by regions. Eastern regions, which received the most FDI has the highest consumption per capita, followed by the middle region and lastly the western region, which received the least FDI.

Estimations using the household income data provided by the National Bureau of Statistics (NBS) and the China Household Income Project concurrently reveal increasing inequality after economic reforms. Based on two set of estimates, Li & Sicular (2014, p. 8) affirm that the Gini coefficient has 'increased from about 0.40 in the mid-1990s to nearly 0.50 in 2007-08'. Since the record high level of inequality in 2008, the Gini coefficient has then declined. The decline by a total of 2.3 percentage point between 2008 and 2014 is thought to be small but significant by Li (2016, p. 86). By 2015, the Gini coefficient was reduced to 0.462 (National Bureau of Statistics, 2016, p. 16). The logic in which capital operates is that it would mainly flow to regions, which generate the highest return. As such, the Theory of Uneven and Combined Development anticipates that FDI in China would concentrate in certain areas and would result in uneven level of development between regions. This argument is substantiated by various studies, notably those of Fan & Sun (2008) and Wei, Yao & Liu (2007).

When the Chinese government opened its economy to the outside world, it consciously pursued a coastal strategy because of the area's comparative advantages that would attract FDI[49]. The Chinese leadership hopes that the wealth created in the eastern region will spill over to other regions (Cheng, 2006, p. 64). The spill-over did not automatically happen as expected. Despite several policies that facilitate the spill-over effect from the eastern to other regions, regional inequality continues to worsen over the years (Cheng, 2006, p. 71). When examining GDP growth across regions, Wei, Yao & Liu (2007, p. 7) find that the eastern region alone contributes more than 50 percent to China's GDP. Similarly, it was found that the eastern region has much higher GDP per capita compared to other regions (Fan & Sun, 2008. p. 9). Both studies have attributed such uneven development to the uneven distribution of FDI in the country. Wei, Yao & Liu (2007, pp. 7-8) observe that the eastern region, which comprised of open cities and Special Economic Zones (SEZs), received more than 80

[49] Historically, since the founding of PRC, the coastal region has been more developed than other regions and Maoist regime tries to oppose to such unevenness by channelling resources and investments into less developed middle and western regions to achieve a balanced and even development condition (see Cheng, 2006, p. 61).

percent of total FDI. By 1986, the coastal regions, with the smallest total area, support more than 40 percent of the total population (Yang, 1990, p. 233). Increasing inflows of FDI since 1992 have caused the income per capita gap between the eastern and inland regions to widen more dramatically (Wei, Yao & Liu, 2007, p. 5).

Similarly, Huang, Kuo & Kao (2010, p. 278) observe that in general, the GDP of provinces in the interior areas is lower than in coastal areas. The variation in the level of economic development between regions also affected the region's purchasing ability. According to Liu & Daly (2011, p. 18), in 1988, the coastal region's per capita consumption remained the highest in China with USD 260.94 consumption per capita followed by USD 170.51 in the inner region and USD 135.97 in the western region. Over the years, per capita consumption increased in these three regions but the increment is the fastest in the coastal region. In 2007, the figure for the coastal region was USD 1572.38, USD777.23 for the inner (middle) region and USD 703.50 for the western region (Liu & Daly, 2011, pp. 18-19). A national minimum wage is not set at the national level in China. Local governments are responsible for setting the minimum wage based on the average wages in local areas. As one can see, Shanghai has the second highest minimum wage at RMB 2020 after Shenzhen. On the other hand, less developed Tibet has a lower minimum wages set at RMB 1400 (Yao & Rosettani, 2015). There are also wages differences in households as the migrants and less educated receive lower wages. This contributes to rising wage inequality (Xing & Xu, 2015, p. 2).

Evidence of unevenness is further demonstrated through the measures of Gini coefficient of China. Huang, Kuo & Kao (2010, pp. 278 & 282) have concluded that the Gini coefficient shows regional economic development in China is increasingly uneven for the period of 1991 to 2001 because the growth of FDI in the eastern region was monumental. The dissatisfaction with regional inequality has prompted the national government to initiate the 'Go West' policy which aims to attract FDI to the western region. This has helped to reduce the disproportionate FDI inflow in the eastern region from 87.9 percent in 2000 to 79.0 percent in 2008 (Liu & Daly, 2011,

p. 16). Despite this effort, the total inflows of FDI in the eastern region remains comparatively higher than other regions in China. Another unevenness observed is the composition of FDI in China. Foreign investors tend to invest more in the manufacturing sector as compared to the agricultural and service sectors. Between 1997 and 2008, more than 60 percent of total utilised FDI was received by the secondary sector (manufacturing) while the primary (agriculture) received only 1.5 percent (Liu & Daly, 2011, p. 15).

Fan & Sun (2008) further break down the complex picture of inequality in China by measuring inequality among provinces and inequality among regions as well as within regions. The measurements used include the Gini coefficient, coefficient variation, and Theil index. Despite the diversity of methods, they record similar pattern of inequality among provinces based on GDP per capita data for the period from 1978-2006. They find that '[i]nterprovincial inequality fluctuated in the late 1970s, declined during the 1980s, rose during the 1990s, remained relatively stable or increased only slightly from about 1999 to 2004, and declined for two consecutive years from 2004 to 2006' (Fan & Sun, 2008, p. 6).

In more specific detail, Dunford & Liu's (2017) analysis shows that wealth is created and concentrated in a number of small cities across China. Though the Eastern region, represented by Shanghai, Beijing, Guangzhou, Shenzhen, and Tianjin generates close to 11 percent of China's GDP, certain cities in other regions also developed relatively well (Dunford & Liu, 2017, p. 77). These differences, they argue are results of uneven and combined development. Disparities between regions have triggered a massive rural migration where people in the countryside start seeking better employment in the city. Hardy & Budd (2012) believe that this is one source of the inequality problems in China.

While the Maoist regime tried to prevent uneven and combined development by limiting migration to the urban areas and promoting rural industry, the break from Maoist policy in 1978 reinitiated uneven and combined development (Davidson,

2006b, p. 216). Greater employment opportunities in urban areas have compelled the state to allow temporary migration. The opportunities were so appealing that, after less than two decades of opening up, 'there were over 70 millions farmers ''floating'' in cities throughout China' by the mid-1990s (Davidson, 2006b, p. 219). Since Chinese people are administered through the hukou system, migrant workers who have a rural hukou are denied several social services in cities such as subsidised housing and access to free education.

Davidson believes that such unevenness has the potential to create social unrest. He believes that the experience of recent rural migrants to the cities will spark a new form of consciousness and perception (Davidson, 2006b, pp. 219-220). A series of protests and strikes indeed took place since the 2000s as a result of super-exploitation of workers by capital (Bieler & Morton, 2018, p. 181). The Chinese state was unwilling to allow permanent urban settlements in the past (Davidson, 2006b, p. 219), but recent development shows that the government plans to help 100 million migrant workers to obtain an urban hukou by 2020 (Hsu, 2016). This move intends to allow more citizens to participate in what President Xi termed the 'Chinese Dream' of becoming a moderately prosperous society (The Guardian, 2015, December 12). Despite this, the selection of beneficiaries of legalisation was often tied to a series of requirements including education level and the forms of jobs of the migrants, which still limit access for less privileged migrants (Hsu, 2016) though the central government has called for equal access to basic social services for migrants and their children. The hukou reform in 2014 allows migrants to access social services based on their social security contributions, rather than their hukou.

In large cities such as Shanghai and Guangzhou, the local government introduced different social security packages so that migrants could access the most basic social services (Li, 2017). According to an article in the South China Morning Post, although '95 percent of the population is covered by some form of public medical insurance, the coverage focuses mainly on basic medical care and excludes many life-saving cancer drugs or treatments' (Wang, 2018). This means that the population,

mainly migrant workers, who often have the most basic security packages have very restricted access to health care. Another notable change adopted by local governments is to allow migrant children with proper documentation to enrol in public schools if one of the parents holds an urban residence permit. Nevertheless, offspring of migrant workers who are in temporary jobs or do not make social security contributions are not entitled to study in urban public schools (Liu, Holmes, & Zhang, 2018, p. 55).

Interestingly, the study by Liu, Holmes & Zhang (2018) of twelve primary schools in suburban Beijing shows that on average the socioeconomic status of non-migrant children was slightly below migrant students (Liu, Holmes & Zhang, 2018, p. 59). They believe that this surprising finding is closely related to the recent hukou reform that imposed strict requirement on hukou registration. Children of migrant workers need to produce five certificates in their application to urban public schools. This strict requirement is said to echo the recent control policies in China's large cities since 2014 where those who does not qualify would be expected to leave large cities such as Shanghai (Liu, Holmes & Zhang, 2018, p. 60). Despite the stringent requirement, the lives of the migrants and their families have greatly improved because of the hukou reforms.

5.3.4 Sectoral Unevenness within China

The Theory of Uneven and Combined Development also predicts that unevenness will be evident between sectors in China as a result of uneven capital diffusion. Indeed, total utilised FDI has been largest in the manufacturing sector (Liu & Daly, 2011, p. 15). The employment opportunities and higher income in the manufacturing sector have attracted migration to urban areas. The more advanced technology introduced in manufacturing raises the high level of productivity. Examining sectoral productivity, it was found that each sector has experienced growth in productivity but at a different pace. The growth in the manufacturing sector remains the most rapid. In addition, the service sector is seen to have intermediate growth while agriculture

experiences low growth in productivity (Nabar & Yan, 2013, p. 13), in parallel with the share of FDI received. There are many studies which agree that the level of FDI inflows would affect TFP growth (Tyers, 2012; Holz, 2006; Tseng & Zebregs, 2002). In particular, Tyers (2012, pp. 33-34) finds that the steady inflow of FDI in the light manufacturing export sector had raised TFP growth. Similarly, Holz's (2006, p. 98) analysis indicates that the industrial sector, which received the most FDI during 1978-2002, exhibits higher TFP growth. However, as the service sector begins to gain greater share of GDP, its average TFP growth for the period of 2000 to 2011 exceeded the growth in manufacturing sector (OECD, 2015, p. 30).

Clearly, the sectoral differences in productivity comes largely as result of combinations of old and modern technique of production within China as propounded by the Theory of Uneven and Combined Development. TNCs that invested more heavily in manufacturing would certainly cause more rapid technical changes in that sector. Many foreign firms invested extensively in the processing trade, which is a new industry requiring the introduction of new techniques and technologies. Therefore, the productivity level in the manufacturing sector is certainly higher than in the other sectors. Moreover, Hardy maintains that there is unevenness of technological capacity, which is often understated. In Hardy's words, '[t]he technological capacity of China combines primitive and low-technology production with medium-technology and pockets of advanced and even very advanced technology' (Hardy, 2017, p. 196). In this sense, there are giant companies which developed well in accordance with domestic comparative advantage, notably in producing trucks and electrical goods. At the same time, there are firms engaged in low value-added production based on the supply of cheap labour. The study by Bieler & Lee (2017b, p. 206) further illustrates how the combination of extensive labour-based, less-skilled production in the electronics sector based in Shenzhen contrast markedly with highly-skilled and high value-added IT sectors located in Shanghai.

Although China's open door policy did facilitate the diffusion of new technologies, these was mainly concentrated in the manufacturing sector. Moreover, the strategic

location of industry in the coastal areas makes the diffusion of technology by MNCs to boost output level more effective. In contrast, the agricultural sector is less concentrated and the introduction and diffusion of technology in this sector depends largely on efforts by the government. Therefore, there has been growing concern about urban-rural inequality. The government has designed measures to support the agricultural sector including 'improving farmer education and promoting the reallocation of agricultural resources to more highly-skilled farmers' (OECD, 2015, p. 44). These efforts have boosted productivity in agriculture, but the growth rates remain slower than the manufacturing sector.

5.3.5 Urban-rural gap

The unevenness between regions and sectors within China further contributes to inequality between urban and rural populations. The large urban-rural gap is well documented in the vast literature (Li, 2013; Li & Sicular, 2014). The ratio of urban income per capita to rural income per capita in 2014 was 2.97 and after adjustment in accounting methods, the new estimates show a much lower figure of 2.52 for the same year (National Bureau of Statistics of China, 2015, p. 16; National Bureau of Statistics of China, 2016, p. 16). Several studies contend that the inequality within regions, including the urban-rural divide, is the main source of national inequality (Li & Sicular, 2014; Ravallion & Chen, 2007). Indeed, after price adjustment, Li & Sicular's (2014, p. 11) analysis shows that the urban-rural gap has contributed 27 percent and 38 percent to national inequality for the years 2002 and 2007 respectively. One of the most plausible explanations for the large urban-rural income gap is the gap in labour earnings partly influenced by the differences in educational opportunities and returns between urban and rural households (Li & Sicular, 2014, p. 11). Another factor affecting urban-rural income inequality is non-employment incomes mostly received by urban households. This includes income from assets and pension, which comes from government policies that favour urban-registered households (Li & Sicular, 2014, p. 11). As Li (2013, p. 3) contends 'the difference in retirement insurance and pensions accounts for 25 percent of the gap between rural

and urban household incomes and, indeed, is one of the main reasons for the disparity'.

Moreover, Li & Sicular (2014, p. 12) find that the magnitude of the urban-rural gap varies between regions. In 2007, they found that the urban-rural income ratio is largest in west China, followed by central China and the eastern region. One interesting point about the assessment by Li & Sicular (2014, p. 9) was that income disparities was not the result of stagnated or declining income for poorer groups of the population, but was due to more rapid growth in the incomes of richer groups. Between 2002 and 2007, the income of the poorest decile increased by nearly 50 percent while the income per capita of the richest decile had nearly doubled (Li & Sicular, 2014, pp. 9-10). In 1997, the ratio of urban-rural household income per capita was 2.5, but twelve years later, the ratio rise to 3.0 indicating that urban income per capita is three times higher than rural income per capita (Li, 2016, p. 86).

The Gini coefficient for rural areas in China was quite low at 0.24 in 1980 when the economic reforms began (Benjamin, Brandt, & Giles, 2005, p. 772). The reforms brought about a rapid rise in rural household income due to which the gap between urban and rural was somewhat narrowed. According to Huang (2008, p. 56), '[p]er capita rural income between 1978 and 1981 grew at a real rate of 11.4 percent; the urban/rural ratio of the purchase of consumer goods feel from 10 to 1 in 1978 to 6 to 1 in 1981'. The positive impacts of the rural reforms are associated with permission for private farming. However, the emergence of Township-Village Enterprises (TVEs) in the mid-1980s caused unbalanced development as the income growth in the non-agricultural sector rose more rapidly than in the agricultural sector. Rising inequality was recorded in the countryside as non-agricultural income became a more important source of rural income (Grabowski, 2011, p. 22). According to Li & Sicular (2014, p. 15), the rural Gini in the mid-1990s increased to more than 0.3 from below 0.25 in the 1980s.

Since non-agricultural activities are mainly concentrated in coastal areas, in a way, they also exacerbate regional income inequality within rural China. Subsequent increases in the price of agricultural products helped to negate the differences in income growth rates, prompting the Gini coefficient in rural areas to drop. However, by 2010, the Gini coefficient had reached 0.61 and 0.58 in rural and urban areas respectively (Li, 2013, p. 2). Based on the China Household Finance Survey (CHFS) conducted in 2010, the Gini coefficient for rural areas was surprisingly high at 0.61 (Li, 2013, p. 2). Han, Zhao & Zhang (2016, p. 25) caution that in theory, a Gini coefficient beyond 0.4 would likely result in disharmony in society and beyond 0.5 would probably trigger unrest such as mass disturbances, as occurred in Latin America. Using comparative methods, Han, Zhao & Zhang (2016) compares China's income inequality to other countries, notably EU countries and Latin American countries with the objective to provide a more global outlook on the issue. Their findings show that for the period of 2004 to 2013, China's average Gini coefficient at 0.482 was much higher than the average of the 27 EU countries but was slightly lower than the Latin American average Gini coefficient of 0.4864 (Han, Zhao, & Zhang, 2016, p. 26). Their study also confirms the trend in China's income inequality presented by other studies (Li, 2013; Li & Sicular, 2014) which shows a gradual decline in China's income inequality in recent years. Despite the reversal of the earlier pattern, by 2015, China's Gini coefficient still stands at 0.462, exceeding the safe level of 0.4 (National Bureau of Statistics of China, 2016, p. 16).

5.3.5.1 Income equality in China

From the discussions above, it is clear that several patterns of unevenness within China contribute to growing income inequality. This problem is said to have caused major unrest in rural areas (The Economist, 2007, March 15). While the Theory of Uneven and Combined Development's predictions about the uneven development pattern of China has transpired, this theory pays little attention to the role the state can play to reduce unevenness. I agree that by opening up to foreign capital, China's development was influenced by MNCs as well as core countries, which often renders

the development uneven. Such is the nature of capital that it will flow to and concentrate in areas that produce higher returns. Along the development process, one of the new contradictions that may arise is the emergence of a group of workers in the urban areas who begin to fight back against the intense exploitation.

Bieler and Lee (2017b, p. 204) maintain that the Chinese economy that feeds on the cheap labour supply does not yield much benefit for the workers. This is because the economy is organised around exploitation of the workers through long working hours and relatively lower wages. The conditions of workers worsened with mass lay-offs within SOEs. In the 1990s, in an attempt to privatise non-performing SOEs in line with the strategy of *'juadafangxiao'* (hold the big, release the small), 60 million workers were reportedly laid off (Bieler & Lee, 2017b, p. 204; Lee, 2009, p. 4). Though a more comprehensive minimum wage law was introduced requiring all enterprises to pay minimum wages to their workers, local governments have the authority to decide their minimum wages based on local living standards (Yao & Rosettani, 2015). With intense competition for promotion based on economic performance, local governments seek to attract foreign investors by setting the lowest minimum wages, often close to the subsistence level. Facing extensive and intensive exploitation, workers in many parts of China carried out strikes.

The All China Federation of Trade Unions (ACFTU) data shows that as a proportion of GDP, the wages of the workers have consecutively fallen from 56.5 percent in 1983 to 36.7 percent in 2005 (Hou, 2010). Indeed, workers benefited less from the growing economy as labour's share of GDP declined over the years. According to Qi (2014), labour's share as a proportion of national income declined from 51.4 percent to 42.4 percent for the period of 1995 to 2007 before returning to 45.6 percent in 2012. Moreover, a report by the International Labour Organisation (ILO) indicates that ''Chinese workers' average output increased at a compound annual rate of 9.6 percent between 2000 and 2012, while employees' average real compensation increased at an annual growth rate of 8.2 percent over the same period'' (Xia, 2016,

p. 5). In addition, the gap between labour productivity and average real labour compensation has widened from 2003 until 2012 (Xia, 2016, p. 5).

In the year 2015, it was recorded that there were over 2700 strikes and worker protests in China, mainly involving foreign companies (Griffiths, 2016). Some strikes, for instance, at Nanhai Honda car plant in 2010 successfully raised the wages of workers, but this success owed less to the Chinese trade unions that should be representing the rights of the workers (Griffiths, 2016), than to the relentless struggles of the workers. In recent times, many unprofitable government owned coal and steel companies that were financed by debts are finding it hard to continue their operations without a further extension of credit. As the government seeks to address the problem of industrial overcapacity, it is estimated that 1.8 million workers in the coal and steel sectors will be made redundant (CNBC, 2016, February 28). This could further cause social uproar if not managed adequately. Such are the characteristics of the Chinese economy that accompany large inflows of FDI. This contradiction would also be one of the reasons that impede or block the catch-up process of China apart from the dominance asserted by the foreign capital.

The global restructuring process of TNCs that shifted labour-intensive manufacturing to China has shaped the Chinese development process. Masson, Dobson, and Lafrance (2008, p. 27) argue that China is 'considerably less integrated into the global financial system than its importance as an investment destination and major exporting country might suggest'. This idea is echoes by Panitch & Gindin (2013, p. 153) who agree that China still maintains massive capital controls. This means that the amount of influence that TNCs can assert in the Chinese economy has been reduced. Although China should comply with WTO rules of gradually opening up its banking sectors to competition, in reality, this sector is still dominated by five large state-owned banks whose primary role is extending credit to SOEs at interest rates administered by the central bank (Panitch & Gindin, 2013, p. 153). Dunford & Liu (2017, p. 73) maintain that '[i]n growing rapidly Japan, the Four Tigers, China, India and Vietnam violated virtually all the rules of neoliberalism'.

Although the role of the state is not explicitly addressed by the Theory of Uneven and Combined Development, nonetheless since 2002, the Chinese government has introduced several measures to narrow the inequality gap within China. Echoing other studies, Han, Zhao & Zhang (2016, p. 28) contends that the declining trend in the Gini coefficient is the result of effective policies put forth by the government to address the inequality problems facing China. This argument is widely shared by other scholars such as Fan & Sun (2008). Fan & Sun (2008, p. 7) argue that the Western Development Program proposed in 1999 and the revival of the old industrial manufacturing base in northeastern China played a part in reducing interprovincial inequality. Further efforts by the Chinese government to reduce income inequality began in the early 2000s. The Hu-Wen administration gave renewed importance to the rural sector, which included gradual elimination of agricultural taxes and fees, subsidising agriculture products, allocating investment in rural infrastructure and many other initiatives. This hugely improved farming income as well as the price of agricultural products and technology (Li & Sicular, 2014, p. 13).

Similarly, the changes in the composition of rural households also impacted on income growth. While farming income remains substantial after reform, other incomes[50] have gradually increased, cutting down the contribution of agriculture to less than 40 percent of rural incomes by 2002 (Li & Sicular, 2014, p. 13). Non-farm incomes are thought to have also played a major role in the reduction of rural poverty as demonstrated by de Janvry, Sadoulet & Zhu (2005) using data from a survey of rural households in Hubei province. However, the newly arising opportunity of non-agricultural income may have widened the gap between rural households as access to these income opportunities may not be available for all. This finding has been confirmed by Benjamin, Brandt & Giles (2005).

[50] Other incomes include wage employment, assets, imputed rents and non-agricultural household businesses.

Some have questioned the effectiveness of the distributional policy during the Hu-Wen decade (Li & Sicular, 2014, p. 1). Reviewing selected policy measures, Li & Sicular (2014, p. 36) find that the effectiveness of the policy was often compromised by problems of implementation, administration and enforcement. For example, the rural *dibao* programme coverage has not extended to all poor households (Chen, Ravallion & Wang, 2006, p. 1). The study by Tao & Qin (2007) further sheds light on the problem of administration. While agricultural taxes and fees were abolished and no other informal fees should be charged on farmers, in reality, local governments require farmers to pay various fundraising and administrative fees (Tao & Qin, 2007, p. 23). The actions of local governments may have thereby offset the benefits of the rural tax reform policy. Nevertheless, calculations of the tax burden on farmers throughout the two decades show that after the nationwide abolishment of agricultural taxes and fees, the tax burden on the poorest group of farmers has dropped from 5 percent in 1988 to 0.3 percent in 2007, a substantial decrease in the burden shouldered by farmers (Li & Sicular, 2014, pp. 23-24). All in all, the conditions of income inequality within China are best summed up by the quote: 'The country's sharp increase in income inequality is not the result of the rich getting richer while the poor become poorer' (Whyte, 2012, p. 229).

5.3.6 Summary

In line with the propositions of the Theory of Uneven and Combined Development, China, as late-developing countries within the capitalist structure, has taken on a 'combination' form in its developmental path. The global restructuring carried out by MNCs brought processing and assembly industry into certain parts of China. As a result, the combination of traditional agriculture with the new production forms has altered existing social relations. Specifically, people in the countryside began to migrate to urban areas, where the manufacturing sector is mainly located. As China's developmental trajectory has been largely based on its low-wage comparative advantage, workers (especially migrant workers) were often subjected to long working hours, low wages and lack of basic social services. This in turn created direct

confrontations between workers and employers, often manifested in the forms of protests and strikes. As the Theory of Uneven and Combined Development has rightly predicted, the uneven capital distribution in China further exacerbates the unevenness between regions, sectors and people's incomes. This growing inequality has further threatened social and political stability.

There is clear unevenness in the level of development between China and advanced industrialised countries as well as within China, but unlike the arguments put forth by the Theory of Uneven and Combined Development, there was no systematic increase in the unevenness between China and advanced industrialised countries, notably the US, following pro-market reform. The difference in levels of development between regions in China is a result of uneven capital diffusion as argued by the Theory of Uneven and Combined Development. It is equally true that the manufacturing sector that received most FDI also demonstrates higher growth in TFP rates as compared to the agricultural sector that received less FDI. The eastern region particularly benefited from the inflows of capital and dissemination of technical knowledge from TNCs as compared to other regions, differentiating regions' development level. As a result, there is a disparity in productivity levels between the manufacturing and agricultural sectors, but the Chinese government tries to boost the productivity level in the agricultural sector through 'improving farmer education and promoting the reallocation of agricultural resources to more highly-skilled farmers' (OECD, 2015, p. 44). The theory has not emphasised the role of the state in reducing unevenness, which was important in China.

The analysis confirms that China has taken the 'combination' form in its capitalist development, which leads to major unrest within China. China's level of development when compared with advanced industrialised countries is highly uneven. There was also stark unevenness identified between regions and sectors within China. Interestingly, Chinese developmental outcomes do not conform absolutely to the predictions of the Theory of Uneven and Combined Development, as outlined by Davidson (2006a, 2006b). Specifically, Chinese development is able to

demonstrate convergence with advanced industrialised countries in terms of income and technological capacity (see discussion of Modernisation Theory in Chapter 5). As highlighted by Panitch & Gindin (2013, p. 153), China is not fully integrated into the world capitalist system, especially in its financial sector, which I argue has helped to reduce the influence of TNCs on the Chinese developmental path. This is partly why China has been able to converge with advanced industrialised countries in an overall sense.

5.4 Conclusion

Both interpretations of China's developmental process and outcomes carry substantial weight. In particular, my analysis shows the possibility of combining and synthesising their explanations of Chinese development. Specifically, Modernisation Theory's assumptions regarding Chinese development shed lights on the importance of the build-up of transportation, agriculture technology, electricity, and water as important for the industrialisation process. The theory also points out that often, lack of capital has become an impediment to the growth of developing countries. Therefore, the theory's suggestion is for 'Third World' countries to open up their economies. This has been true to an extent as the analysis shows that the level of economic development of China after reforms was much greater in comparison to during its command economy period. Specifically, after market reforms, poverty reduction has been so successful that by 2013, less than 2 percent of its population live below the international poverty line. China is also converging in technological capacity with the US.

Nevertheless, China did not follow the free-market development model that advocates for full liberalisation of the economy because this model would in fact put a limit to the development of developing countries. As discussed in Chapter 7, China's economic success is attributable to the State-led Development Model that was adopted by Japan, South Korea and Taiwan. The analysis concludes that relying on imports of foreign technology and transfer of technology and skills through FDI as

proposed by Modernisation Theory is not sufficient for China to catch up technologically. First, this is because FDI would only transfer certain set skills and technologies necessary to undertake the production required. Second, access to core technologies by developing countries is often restricted by TNCs so the latter would remain competitive in the market. Therefore, FDI can only lead spontaneously to the adoption of particular forms of advanced technologies, and further industrial upgrading would require appropriate policies and commitment by domestic firms.

On the other hand, the application of the Theory of Uneven and Combined Development into the assessment of Chinese development has shed light on how the opening of the economy in the late 1970s made the development of China combine with developments in the global economy. Specifically, China's opening-up coincided with relocation of labour-intensive manufacturing production to the Global South. As a result, TNCs found their way into China. Their FDI introduced new forms of production that when combined with traditional agriculture, created an unstable social formation. The Theory of Uneven and Combined Development has correctly conceptualised how the distribution of capital creates the unevenness observed within China in several aspects. There is unevenness between sectors and regions as a result of uneven capital diffusion. The Theory of Uneven and Combined Development argues that the gap in the level of development between China and advanced industrialised countries is highly uneven, which is true, yet, there is no systematic increase in the unevenness as predicted by the theory. In fact, in the Chinese experience, there is a clear pattern of convergence in income and technological capacity over time with advanced industrialised countries. Therefore, although Chinese development took the 'combination' form, it also demonstrates the capacity to close the developmental gap, which could potentially lead to developmental catch-up.

This finding of Chinese experience counters the argument of the Theory of Uneven and Combined Development, notably outlined by Davidson (2006a, 2006b) that late-developing countries that took the combination form would not be able to catch up

with advanced industrialised countries. At its present stage of development, China has gradually shifted to engage in some high value-added activities and as I maintain throughout the thesis, more time and effort are needed for China to fully catch up technologically with the advanced countries. Specifically, China must have strong innovative power to produce cutting edge technologies, setting global standards in order to be considered as fully caught-up. The catch-up process is of course not without its challenges (see Chapter 8). Its success depends on how adaptive Chinese government and Chinese firms are in addressing the challenges along the way.

In sum, observation of China's economic performance leads to the conclusion that China has great potential to catch up with advanced industrialised countries. Interestingly, while its GDP per capita is far below that of advanced industrialised countries, China has already engaged with and is even leading in certain high-technology fields such as supercomputers and robotics. This is partly because, as discussed in Chapter 7, the state has control over important resources that allows her to allocate investment to sectors it deems important for development. Following this, it is important to examine what is the particular development model of China, which has allowed her to achieve exceptional economic performance. On the one hand, Hardy and Budd (2012) argue that China is capitalist, while Arrighi (2007) argues that China is not truly capitalist. This leads us to the next question, 'Is Chinese political economy capitalist?' This third research sub-question is examined in the following chapter.

CHAPTER 6

CHINA'S POLITICAL ECONOMY: SOCIALIST OR CAPITALIST?

6.1 Introduction

Chapter 5 has concluded that China has been catching up with developed industrialised countries, but has yet to achieve developmental catch-up. As indicated in Chapter 3, the second key debate of 'What is the particular development model of China?' entails too many interpretations and therefore the scope of research is narrowed by first examining 'Is China capitalist?'

Unlike existing literature that concludes whether China is socialism or capitalism by having a predetermined definition, this thesis took a distinctive approach by looking at how scholars and Chinese officials define socialism/capitalism. Some may argue that without employing a clear and commonly accepted definition of socialism/capitalism, the discussion would confuse rather than clarifies the issue. A discussion based on scholars' own definition of the concept socialism/capitalism is exactly the reason why it is difficult to reach a consensus among scholars on whether China is socialist or capitalist. This is because there are indeed many ways to define socialism or capitalism, which are all useful in its own right. While this chapter would discuss general characteristics of socialism and capitalism, but ultimately it aims to discern in practice whether China is socialism or capitalism by synthesising empirical evidence to assess the arguments made by Chinese officials and other scholarships.

In general, there are two strands of debate in relations to the question, 'Is China capitalist?' On the one hand, scholars such as Hardy & Budd (2012), Huang (2008) and Kolo (2007) argue that China is capitalist. Hardy & Budd (2012) and Kolo

(2007) focus on labour rights while Huang (2008) looks at corruption and the transfer of public property to private property.

In contrast, Chinese state officials maintain that China remains socialist even after market reforms because the public sector remains the mainstay of the economy. Samir Amin (2013), Ford (2009) and Arrighi (2007) contend that China is non-capitalist. Amin's arguments are based on land ownership in China while Arrighi focusses on the role of the Chinese state. However, Amin argues the question of whether China is capitalist or not is 'badly posed, too general and abstract for any response to make sense in terms of this absolute alternative' (Amin, 2013). Therefore, this chapter reformulate the question into a narrower sense, i.e. 'Is Chinese **political economy** capitalist'? Since the four development theories could not shed lights on this research sub-question, this question is addressed by drawing upon other literature. By examining relevant literature, this chapter gives an overview of the emerging debates. This chapter will also involve evaluating and critically analysing the logic of each argument, which is useful to understand why and how the ideas are different from one another. The aim of Chapter 6 is to provide an in-depth analysis of the debate surrounding this key question as well as to understand the Chinese realities.

The following chapter is organised as follows. The following section discussed in brief the general characteristic of socialism and traces the emergence of the concept 'Socialism with Chinese Characteristics'. This includes looking at speeches of top leaders as well as articles produced by state-backed Chinese institutions. Subsequently, I analyse whether the Chinese political economy is socialist as maintained by the Chinese state. The next section explores and analyses different positions undertaken by other scholars in light of the Chinese political economy. A group of scholars (Hardy & Budd, 2012; Huang, 2008) maintain that China's political economy is capitalist while scholars such as Samir Amin (2013) and Arrighi (2007) argue that China is non-capitalist but avoid explicitly referring to China as socialist. Therefore, from a critical engagement with various literature, this chapter aims to

answer ‘Is Chinese political economy capitalist?’ The analysis shows that China is capitalist based on the exploitation of wage-labour, collusive relations between local cadres with private capitalists at the expense of the people, which has resulted in a highly polarised and unequal society.

6.2 Chinese Official Narrative of ‘Socialism with Chinese Characteristics’

Socialism like many other concepts such as globalisations are often difficult to be precisely defined. Martin (1911) who embarked on an attempt to define socialism by soliciting views from experts shared the same view that there are numerous views on socialism. Despite that, he finds that there are some common characteristics of socialism that were highlighted by the experts. Generally, socialism means the public ownership and operation of the means of production, through state (Martin, 1911, pp. 347 – 348). There is, however, no consensus reached on whether some form of private ownership for social efficiency purposes is acceptable or not in a socialist system (Martin, 1911, p. 348). Ideally, private ownership of the means of production should not exist because it would degenerate into the type of social relations where the capitalists aim to maximise profits by either supressing the wages or forced workers into brutal working conditions.

Therefore, the economic reforms introduced in the 1970s is at odd with an ideal socialist state. However, Chinese officials and often state-backed Chinese institutions contend that China has a unique historical experience and must always adapt Marxism to fit with its national conditions (Han, 2015; Wang, 2009; Deng, 1984, June 30). Therefore, there is an attempt to innovate the concept of socialism to fit well with Chinese realities. It has been argued that the experiences of the advanced socialist states were seemed irrelevant as China had achieved socialism with a low level of economic development (Wilson, 1989, p. 77). Therefore, this thesis would assess whether China is socialism based on the criteria set by the CPC.

Xue Muqiao, the distinguished Chinese economist, proposed that Socialism should be divided into several phases in the manner that Communism was divided into two phases by Marx. Recognising that China is largely a small-peasant economy, Xue Muqiao claims that collective ownership would prevail for a longer period, before being replaced by ownership by the whole people (Xue, 1981, p. 15). Xue believes that this point of reference is important as 'it helps to prevent a premature application of certain principles applicable only to the first phase of communism defined by Marx' (Xue, 1981, p. 15). The idea proposed by Xue Muqiao was close to the 'initial stage of socialism' envisaged in later years. What was different was that Xue Muqiao may not have expected that private ownership would prevail in the Chinese economy.

After the end of the power struggle within the party in 1976, Deng Xiaoping returned to the political scene. Often regarded as the chief architect of China's economic reforms, Deng pushed through a series of market-oriented policies that diverged sharply from the policies adopted in the Maoist command economy. The introduction of pro-market policies has raised many concerns because the 'leftists' were worried that China would take the capitalist road if too many elements of capitalism were introduced. Deng, however, challenged the established belief that the market economy and socialism are not able to go hand in hand. He refuted the idea that there is only a 'capitalist market economy' and maintained that it is possible to develop a market economy under socialism (Deng, 1979, November 26). Deng also clarifies that the adoption of a market economy is not equivalent to practising capitalism though their methods may seem similar (Deng, 1979, November 26). What was clear to Deng is that there is planning also under capitalism (Deng, 1992, January 18 - February 21). Similarly, there also could be market forces under socialism. Deng maintains that '[a]s long as learning capitalism is regarded as no more than a means to an end, it will not change the structure of socialism or bring China back to capitalism' (Deng, 1979, November 26). This suggests that the adoption of capitalist methods does not alter the fact that China is socialist if the state is consciously steering the country towards the construction of socialism.

Deng explains that '[t]he essence of socialism is liberation and development of the productive forces, elimination of exploitation and polarisation, and the ultimate achievement of prosperity for all' (Deng, 1992, January 18 - February 21). The optimism of Deng about the total elimination of the exploiting class can be traced back to 1980. He believed that when the GNP per capita of China reaches USD 1,000, Chinese will live much more comfortably compared to economies that has doubled their GNP per capita. This is because 'in China there is no exploiting class or system of exploitation, and so the national income is entirely used for the good of society as a whole, a large portion of it being directly distributed among the people' (Deng, 1980, January 16).

Years into the reform, China continues to devote itself to the questions of socialist theory. According to Wilson (1989, p. 77), a report to the 13th Congress of the Party by Zhao Ziyang, then Acting General Secretary Party General has touched upon the concept of the 'initial stage of socialism'. One important point raised by Zhao was that Chinese socialism is still in its initial stage and therefore requires the development of its productive forces to achieve a level of abundance. This is done through the long-term co-existence of the private sector with the cooperative and public sectors to develop a full commodity economy (Wilson, 1989, p. 77). Yu Guangyuan, a more liberal economist, argues that China at that point in time needed non-public economic forms because the public ownership system alone is not able to meet China's economic needs (Wilson, 1989, p. 80). According to Yu Guangyuan, '[t]his theory constitutes the principal part of Comrade Deng Xiaoping's general theory of building socialism with Chinese characteristics' (Yu Huangyuan, 1987a, K 36, as quoted in Wilson, 1989, p. 81). Moreover, the theory of the initial stage of socialism provided the basis to justify income differentials by allowing some to get rich first (Wilson, 1989, p. 79).

The idea that China is located in the 'initial stage of socialism' is widely shared among Chinese scholars. In the Chinese literature, Han, a lecturer from the Party School of the Central Committee of the CCP agrees that China is in the initial stage

of socialism. Echoing the idea of Deng (1980, January 16) that building socialism would first require China to develop its productive forces, Han (2015, p. 45) maintains that this would help to realise Chinese modernisation by gradually increasing the living standards of the people and rejuvenating the Chinese nation. In order to develop productive forces under socialism, China should make use of any advanced methods and management system it finds useful in the market economy (Han, 2015, p. 46).

The creativity of the Chinese economists and leaders to identify a new phase in the development of socialism, i.e. the 'initial stage of socialism' – was important to allow China to adopt a range of pragmatic policies, which may seem less socialist in nature than those of Maoism. Therefore, even after adopting a market economy, Deng believes that the CCP are building Socialism with Chinese characteristics because market growth would contribute to the end goal of socialism. In the words of Deng, 'our work in all fields should help to build Socialism with Chinese characteristics, and it should be judged by the criterion of whether it contributes to the welfare and happiness of the people and to national prosperity' (Deng, 1983, January 12). Moreover, Deng explains that '[s]ocialism means eliminating poverty. Pauperism is not socialism, still less communism' (Deng, 1984, June 30). In this sense, elimination of poverty would mean that China is socialist.

In the 16th Party Congress Work Report, President Jiang Zemin maintains that China is still at the primary stage of socialism and this will remain so for a long time to come (Jiang, 2002). The concept of 'Socialism with Chinese Characteristics' reached new heights when President Xi Jinping announced at the 19th National Congress of the CPC that 'Socialism with Chinese Characteristics' has now entered into a new era. It signifies an era where China will successfully become a moderately prosperous society by 2020, an idea first brought up during Hu Jintao's administration[51] (China Daily, 2017, October 25). This is achieved by addressing the inadequacies in the

[51] Hu Jintao was the President of China from 2003 to 2013 before succeeded by the current President Xi Jinping (March 2013 to present).

economy such as fully alleviating poverty. After realising a moderately prosperous society, China should give full attention to developing a great modern socialist country by the mid-21st century (Xinhua, 2017, October 18).

In a publication by the Chinese Academy of Social Sciences (CASS), then Vice-President Wang Weiguang explains that the basic principle of socialism is to maintain the dominant position of public ownership. Moreover, the Chinese state would continue to strengthen macroeconomic control under a socialist market economy (Wang, 2009, p. 13). This means that under a socialist market economy, the regulatory role of the state in the economy will be maintained. This has been explained by Deng, '[t]he socialist market economy mainly regulates interrelations between state-owned enterprises, between collectively owned enterprises and even between foreign capitalist enterprises' (Deng, 1979, November 26).

Moreover, the official justification of this concept is very consistent. The official newspaper for the CPC, the People's Daily, interpreted 'Socialism with Chinese Characteristic' in three layers: 1) public ownership remains the main stay of the economy; 2) inter-party cooperation and consultation and ensuring regional ethnic autonomy; and 3) socialist values are at the core while respecting other differences and develop common ground (People's Daily, 2007, September 30). As long as public ownership remains dominant in a multi-ownership market economy, China has fulfilled the economic aspect of 'Socialism with Chinese Characteristics'. In political aspect of the concept, China has practised a multi-party cooperation system where another eight political parties, under the umbrella of the CPC, also participate in political discussion, though only to a limited extent in decision-making. Under the political aspect of 'Socialism with Chinese Characteristics', socialist democracy is guaranteed by ensuring regional autonomy (Embassy of the PRC in the Commonwealth of the Bahamas, 2012). Lastly, in the cultural field, socialist values remain the core values while other differences are respected and common grounds expanded. While these three key elements form the concept of 'Socialism with

Chinese Characteristics', this chapter is more interested in the economic aspect of it, which will be analysed in the next section.

Basically, the concept 'Socialism with Chinese Characteristics' was introduced to defend the market reforms. With the passage of time, the concept has evolved. Nevertheless, the essence of the idea is that the Chinese state has in mind the construction of a truly socialist society based on its national realities. Despite the capitalist methods used in the development of productive force, China will not revert to capitalism simply because learning capitalism is just a *means* to achieve the end goal of building socialism. Moreover, China maintains that public ownership remains the dominant form of the economy and the state continues to regulate interrelations between all enterprises regardless of ownership. I argue that the emphasis on the strong role of the state in regulating the interrelations between all enterprises, regardless of ownership, was meant to justify the non-subordination of the state to the interest of the capital. Accordingly, it became a powerful justification for the claim that China is socialist. An in-depth evaluation of the realities is needed to understand if China justifies as a socialist state by its own standard.

6.3 Analysis of 'Socialism with Chinese Characteristics'

The main defence of the idea of 'Socialism with Chinese Characteristics' was that China has been able to maintain the dominant position of public ownership. However, there is no clear indication of what constitutes the dominant position of public ownership. The claim that public ownership remains dominant in the economy is justifiable if one looks at state ownership of industrial assets which remained substantial at 39 percent of the total in 2014, but for the same year, the state share of revenues stood at 24 percent and the employment rate at 18 percent, and these were way less significant (Naughton, 2017, p. 8). Moreover, recent decisions undertaken by the Chinese state seem to undermine the dominance of public ownership in the economy as it plans to introduce China's mixed-ownership reform in SOEs. This pilot plan allows private businesses to hold shares in many sectors that were off-

limits in the past. The first group of SOEs that has participated in the pilot programme includes China Unicom, a telcom company, and China Nuclear Engineering and Construction Corporation (Xinhua, 2017, April 12). In fact, the private share-holders are regarded as strategic partners that will help to develop and promote new products and services (Yang, 2017). Under this new type of partnership, the amount of influence private capital can exert on the operationalisation of SOEs in the future is left unknown at present.

The Chinese government has argued that allowing multiple forms of ownership does not mean that the overall system is not socialism as long as public ownership remains dominant. This idea is echoed by Philip Huang (2012, p. 620), who agrees that socialism can take many forms, including mixed state and private economy, but for him, the indispensable criterion of socialism is 'development with equity, not without'. However, in China, the profit-seeking activities of state firms owned by central and local governments have enriched the state, officials and capitalists, rather than society at large (Philip Huang, 2012, p. 622). As discussed in Chapter 5, the reform era has turned China from one of the most equal society into one of the highly unequal society with Gini coefficients at alarming levels. Deng maintained that one of the essense of socialism is to eliminate exploitation and polarisation (Deng, 1992, January 18 - February 21), which has not been eliminated but intensified after reforms.

Moreover, the relaxation of state ownership in the industrial sector paves way to the entry of private domestic firms and foreign firms into the sector. It has been claimed that 'when small-scale firms and family artisans are included, workers in state-controlled firms make up only 12 percent of the total industrial labor force' (Naughton, 2017, p. 7). The entry of private domestic firms and foreign firms which are interested in maximising profits into the public sector creates the conditions for exploitation or even super-exploitation of workers. This condition is made worse when trade unions have weak negotiating power and lack the will to defend the rights of the workers. Market reforms have fundamentally changed the social relations of

production in China. However, Deng's point is that, regardless of the methods used to develop the countries, as long as it serves socialist purposes, i.e. no exploitation and achieving common prosperity, China remains socialist.

However, the situation is much less optimistic than the CCP top leadership expected. Approximately 120-150 million workers who came to the cities to work have no formal status (Panitch & Gindin, 2013, p. 152). Under the banner of a socialist market economy, China legitimised the privatisation of state and collective owned enterprises in the 1990s (Li M., 2008). In fact, through an examination of many government reports, Huang (2008, p. xv) finds the privatisation of collective TVEs goes back to as far as the 1980s. The privatisation of SOEs in the 1990s resulted in the redundancy of 600 million workers (Bieler & Lee, 2017b, p. 204). This lay-off is viewed as the urban workers being 'deprived of its remaining socialist rights' (Li M. , 2008, p. 85).

Moreover, the ACFTU is a symbolic institution that is defending the interests of the workers in name only. This is because it is difficult to negotiate for the interests of the marginalised workers when the union is subsumed by the Chinese government (Lambert & Webster, 2017, p. 316). While the international trade union movement recognises the contribution of ACFTU in improving workers' position and as a local enterprise union, particularly following the introduction of 1994 National Labour Law, Lambert & Webster (2017) argue otherwise. In principle, the written labour contract acts as a guarantee of the rights of the workers in the workplace. However, Lambert & Webster (2017, pp. 317-318) show that the length of the contract has been reduced over time, with the shortest possibility today of a one-year contract. This means that workers are now more exposed to the risk of unemployment because of the new right given to the employer to end employment when the contract expires. The neoliberals would argue that such flexibility of labour market has allowed increased economic efficiency, but Lambert & Webster point out the risk of such flexibility. They observe that 'the promotion of flexible labour markets and privatisation has led to accelerating social inequality and social instability reflected in

a rise of strikes and conflict' (Lambert & Webster, 2017, p. 318). Indeed, the database compiled by Manfred & Sarosh (2014, p. 465) identified 763 industrial actions between the period of 2008 and 2012. They also saw the trend of increasing strikes 'from 3.6 actions per month in 2008 to 32.1 actions per month in 2012' (Manfred & Sarosh, 2014, p. 465). Moreover, Naughton (2017, pp. 17-18) argues that as the country open up more to inflows of FDI in the 1990s, there was virtually no redistribution of income.

The 1994 labour law has reduced the working hours to 8 hours per day, 44 hours per week with restrictions on overtime and inclusion of certain welfare benefits. This has been viewed as a positive development in the protection of workers' rights in China. However, there is insufficient enforcement because of a lack of capacity or political will (Lambert & Webster, 2017, p. 318). Most importantly, there is no law to punish those who does not conform to the labour law, which makes the enforcement of welfare benefits of workers less likely. While excessive working hours and restrictive working environments may seem acceptable as they also mean increasing efficiency and income for the workers, in reality these conditions can lead to physical and mental exhaustion. An article in *The Guardian* describes how the harsh working environment at Foxconn has led to emotional breakdowns. Workers are required to work excessive hours and during the peak production period, they are required to work for 13 days consecutively without any days off (Chamberlain, 2011). Despite Chinese law that prohibits working overtime for more than 36 hours, in one extreme case, a worker in Foxconn, Chengdu has worked 98 extra hours in a month (Chamberlain, 2011). A Taiwanese businessman notes that in China, 'workers often work for a few months without any day off.…In the export toy industry in Guangdong in the busy season workers laboured for up to 14-18 hours with no days off' (Karadjis, 2007). Such violation of rights is easily found in work-places but the employer was rarely held accountable.

Despite the change in the attitude of the government to foster labour harmony, many violations of workers' rights still remains. For example, the government has passed a

law to criminalise wage arrears but the problem still persist. According to China Daily, the low penalty means that some employers can still see incentives in defaulting on wage payments (Hou, 2017a). Moreover, a senior officer at the Ministry of Human Resources and Social Security, Wang Cheng, said that although the crime carries a prison sentence, in reality, very few cases were tried. In some cases, employers were freed by the local court after they agreed to make a delayed payment to the workers (Hou, 2017a). While the government has helped to settle wage arrears of 35 billion yuan in 2016 (Hou, 2017a), there remain many more unsettled cases.

In its attempt to restructure the economy through privatisation, the Chinese state still managed to retain control in certain parts of the economy. The control the state has of the economy is often manifested by the dominance of SOEs in vital sectors (Naughton, 2017, p. 8). According to the statistics provided by Appel (2014, p. 665), in 2006, SOEs hold more than 80 percent of total assets in the mining industry, electricity, gas and water. Privatisation in the 1990s may have significantly downsized the number of industrial state-owned enterprises; nevertheless, it was regarded as an attempt to keep the bigger SOEs by letting go of the smaller ones. At present, the state still has control over important assets such as land and natural resources. The most important control the state has is on the large proportion of national incomes that were generated from the collection of taxes, land sales, social insurance contributions and after-tax profit contribution by SOEs (Naughton, 2017, p. 5). Based on these components, it was estimated that the Chinese government had control either directly or indirectly of 38 percent of GDP in 2015 (Naughton, 2017, p. 7).

Despite the large proportion of income the Chinese state has gained from market activities, welfare spending in China is not as generous as what a socialist state would have spent on its people. Moreover, as discussed in the later part of the chapter, the process of accumulation of capital by the state was achieved through either direct exploitation of workers or by turning a blind eye to violations of workers' rights by

capitalists (Chan, 2003, p. 4). The belief that the greater amount of control the state has means that it is less likely to be subordinated to the bourgeoise (Arrighi, 2007, p. 332) does not take into account how relations of production are organised in China, which is clearly incompatible with socialism. Bieler & Morton argue that the Chinese state is taking an active role in capitalist restructuring by 'combining an authoritarian regime of labour subordination at the domestic level, with an active geopolitical role of ensuring the supply of oil and raw materials for the economy especially through its active engagement with countries in sub-Saharan Africa' (Bieler & Morton, 2018, p. 214).

Through opening up to transnational capital, Chinese development led to the emergence of 'red capitalists' – mostly consisting of party cadres (Bieler & Morton, 2018, p. 218), who make use of their political connections for self-enrichment. Huang (2008, p. 284) argues that the Chinese political system that accords excessive public power to party-state officials coupled with the introduction of a market economy have contributed to the expansion of corruption in the 1990s. This was exemplified by one of the biggest corruption scandals in the 1990s involving the former Beijing mayor, Chen Xitong, who was also a member of the politburo. It was reported that Chen had embezzled as much as USD 2 billion from government coffers and from foreign and Chinese businessmen alike for his own personal use (Pomfret, 1998). Corrupt officials often conspire with capitalists in exchange for material gains, a condition Huang (2008, p. 236) regards as crony capitalism. Massive corruption reflects a situation where the gains from market activities were not used for the development of the country and its people, but were appropriated by members of the CPC. This clearly contradicts the claim of Deng that 'our work in all fields should help to build Socialism with Chinese characteristics, and it should be judged by the criterion of whether it contributes to the welfare and happiness of the people and to national prosperity' (Deng, 1983, January 12).

Moreover, recent high-profile purges by current President Xi Jinping also revealed that amongst the most senior party-state officials, corrupt practices are not

uncommon. One of the charges faced by Zhou Yongkang, one of the seven-member of the politburo standing committee that forms the core of Chinese leadership was accepting bribes (Xinhua, 2015, June 11). The way in which the Chinese political economy works is better comprehended in the words of Vermeiren & Dierckx (2012, p. 1657).

> The Chinese accumulation regime brought about a huge concentration of wealth closely knit around the political elites of the CCP: of the 3220 Chinese citizens with a personal wealth of more than 100 million yuan (USD13 million), 2932 are children of high-level cadres, while of the key positions in the five industrial sectors – finance, foreign trade, land development, large-scale engineering and securities – 85% - 90% are held by children of high cadres.

Also, the reforms initiated by Deng in the late 1970s saw the withdrawal of the state's role as the main social service provider. After the reforms, government expenditures on health-care and education have shrunk and a large part of the costs are shouldered by individuals (Kolo, 2007).[52] Lai (2016) has documented in detail the huge burden Chinese peasants had to shoulder for social services. He explains that despite the rising income, Chinese peasants had to fork out high expenses for medical care, which resulted in some not seeking treatment at the hospital. Such withdrawal causes some serious problems such as a rapid increase in inequality, serious environmental degradation and a lack of harmony in society (Li & Shaw, 2013, p. 97). Moreover, the household registration system (hukou) is also tied to the social services that one can enjoy. This system prevented migrant workers in the cities from enjoying certain benefits such as free health-care. The stagnation of rural income and the hukou system that limits migration help to create a large pool of cheap labour for the factories. This essentially causes great income inequality between rural and urban residents and the gap is estimated to be more than 200 percent (Appel, 2014, p. 663).

[52] Note that under Hu-Wen leadership, central government began a series of welfare programme aimed at defusing resentment among the people. President Xi has continued to expand social service coverage.

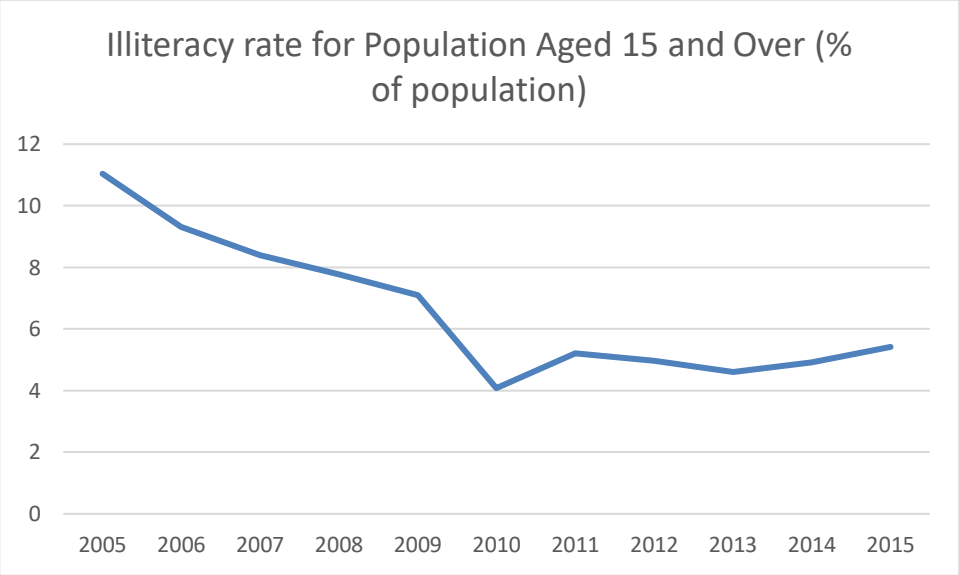
While GDP has increased rapidly since the transition to so-called 'market-socialism', this enormous wealth creation is accompanied by greater income inequality. As uphold by Phillip Huang (2012, p. 620) and Deng (1992, January 18 – February 21), the essence of socialism is development with equity. Therefore, it is inappropriate to regard the Chinese political economy after its market reforms, with a highly unequal distribution of wealth, as socialism.

An economist from World Bank, Wu, explains that per capita net income for the bottom 20 percent and 40 percent rural households did increase as a result of the reforms, but at a rate slower than the increase for the top quintile of households. According to Wu, between 1980 and 2012, there is an increase of 4.5 percent and 6 percent per annum for the bottom 20% and 40% households respectively, but the top quintile household had a higher increase of income at 7.5 percent (Wu, 2016). Over the period, income inequality between the bottom and top quintile households increased. As such, it is not difficult to understand why growth has been accompanied by inequality in China. Moreover, Huang (2008, p. 238) argues that relative to the fast growth of GDP in Shanghai, the growth of personal incomes in the 1990s is considerably slower.

Therefore, there is doubt whether China's ever-increasing GDP growth corresponds to a better quality of life in China, which was one of the outcomes anticipated by Deng under the banner of the socialist market economy. As an example, the Chinese official English language newspaper, *China Daily* reported that between 2000 and 2005, the number of illiterate adult Chinese underwent an increase of more than 30 million (Wang, 2007). Yasheng Huang also reported the increase in illiteracy in relative terms. According to him, '[t]he illiteracy rate of the adult population increased from 6.72 percent in 2000 to 11.04 percent in 2005, an increase of 64.3 percent' (Huang, 2008, p. 245). Huang (2008, p. 245) explains that the illiteracy rate increased due to changes in the education system a decade before. In constrast, for the same period, the economy is expanding with an average GDP growth close to 10

percent annually (World Bank, 2016b). Nevertheless, since 2005, illiteracy rate for adults declined sharply before a slight increase from 2010 to 2011 (Figure 6.1).

Figure 6.1 Illiteracy rate for Population Aged 15 and Over (% of population)



Source: Compiled from National Bureau of Statistics (2014, 2017)

China today under the leadership of President Xi Jinping is apparently more committed to socialist goals, as exemplified by the declared policy goals aimed at creating a moderately prosperous society. As discussed in Chapter 5, the hukou reform means that the state no longer ties access to social services to one's household registration. Central government has urged local governments to provide migrant children with equal access to public schools, though the certification requirement has hindered many offspring of migrants from going to public schools. In order to fulfil the Chinese Dream, Beijing has to eliminate poverty by 2020. However, the task of fully eliminating poverty in China gets tougher as China is moving nearer to its end goal. There are many measures proposed by the government to achieve the national

goal. This includes helping to develop industries such as tourism and e-commerce in rural areas that can create more employment for the local population, relocating residents from remote areas or areas prone to natural disasters, developing public health services and ensuring less privileged people are entitled to social security.

More emphasis is given to ensuring that children get basic education or vocational training so that the next generation will not be trapped in the vicious cycle of poverty (Zhuang, 2017). Targeted poverty alleviation programs are customised programs aiming to identify the targeted poor and reasons for poverty so that officials could tailor solutions based on local conditions and the needs of the population. Most importantly, 800,000 officials are sent to work with local population to lift the remaining 40 million people out of extreme poverty (CGTN, 2018, January 11). The Chinese state has provided some social services but the role still largely has to be fulfilled by individuals. Naughton (2017, p. 22) argues that China still performs poorly in achieving broadly redistributive policies in a highly unequal society. While public goods provision in terms of physical infrastructure such as an integrated transport network is very impressive, the Chinese government budget for social services remains low and it benefitted urban middle class much more than other social groups (Kerswell & Lin, 2017, p. 48).

Since 1993, the Chinese government has pledged to spend approximately 4 percent of GDP on education but has failed to deliver (China Daily, 2012, October 4). Far from realising the highly-set target, between 1992 to 1996, government expenditure on education was below 2 percent of GDP (World Bank, 2017a). Using available data from the World Bank, India's government expenditure on education was about 3.5 percent and 4.3 percent of their GDP for the years 1998 and 1999 respectively. Meanwhile, for the same years, China with twice India's GDP per capita (in current US dollars) spent only 1.8 percent and 1.9 percent of their GDP on education (World Bank, 2016l; World Bank, 2017a). Based on the 1998 National Health Service Survey, the high costs of health-care have resulted in approximately one third of rural residents not receiving treatments when sick (Huang, 2008, p. 253). Data provided by

UNICEF shows that public spending on health care in China proportionate to GDP is 2.9 percent between 2007 and 2011 (UNICEF, 2013).

Public spending is insufficient as it was reported that poor funding from the government resulted in marking-up of drug prices by 15 percent in Beijing (Xinhua, 2017, March 23). Moreover, a survey conducted by a government agency finds that 'in 2015, only 16.4 percent of the migrant worker employed had a pension and 18.2% had medical insurance' (Nan, 2016, p. 124). Despite measures to reduce poverty and improve the social security safety net, advocacy of labour rights continued to be undermined. In 2015 and 2016, the government continued to crackdown on labour Non-governmental Organisations (NGOs) and detained labour advocates as well as independent journalists reporting on strikes and protests in China (Congressional-Executive Commission on China, 2017, pp. 2-4).

As one can see, the conception of socialism in the Chinese sense undoubtedly deviates from the original understanding of socialism since it was revised to fit with political realities. Overall, there were improvements in the living standard of the people after market reforms, but this do not alter the fact that social relations of productions remain capitalist and labour rights continued to be undermined. As such, some scholars would strongly assert that China is not socialist (Hardy & Budd, 2012; Kolo, 2007) despite CPC affirmations that 'China has undoubtedly established a socialist system and entered the stage of socialist society' (Quoted Report, Sec. 33 from Wilson, 1989, p. 78). Walsh (2008) argues that the Chinese state uses a 'socialist language' to defend the development of the market, and thus, capitalist relations. Walsh (2008) asserts that this is 'an attempt to legitimise their counter-revolutionary measures'. Similarly, Li & Shaw (2013, p. 96) see the attempt as a way to confer legitimacy on economic marketisation. They also believe that it was not in the interests of the party-elites to abandon 'Chinese socialism' as a political ideology because it would then render the party irrelevant since the legitimacy of the party was founded on this basis (Li & Shaw, 2013, p. 96). Moreover, after the dismantling of the rural collective economy and basic public services, the peasants were compelled

to go into the cities to look for employment. In this way, a large pool of labour was created and the abundance of labour surplus means that workers are vying to secure employment at the lowest possible wages (Li, M. 2008, p. 85).

In general, literature coming from the Chinese perspective has always maintained that China remains socialist even after the market economic reforms. However, some members of the CPC, who are more inclined to the left, questioned if the adoption of a market economy actually led China away from socialism. According to Coase and Wang (2012, p. 109), there was uncertainty about the socialist character of the Chinese economy as the article, *Socialism Bound to Replace Capitalism* published in People's Daily on 7th December 1990 contends that all the economic difficulties and political disturbances, for instance hyperinflation and the student protests in 1989, were attributed to the market reforms in the early 1980s. Therefore, the author of the article in People's Daily, the CPC's mouthpiece, calls for China to return to socialism to end all these adversities. This content of the article suggests that, even within the CPC, there is no one homogeneous view regarding the nature of the Chinese political economy.

Therefore, regardless of whether China is at the 'initial stage of socialism' or has now entered a 'new era' of Socialism with Chinese Characteristics as argued by the Chinese government, at the least, China should adhere to the basic principles of socialism to be regarded as such. For Deng, socialism may mean elimination of poverty (Deng, 1984, June 30). Indisputably, China has lifted millions out of poverty in four decades of reforms, but the way in which this was achieved contradicts the very essence of socialism. An exploitative system remains intact where workers, notably migrant workers are being forced to work longer hours and were not entitled to basic social services in the cities they worked until very recently. There is abundant evidence which shows employers have delayed payment of wages to workers. Moreover, the highly unequal society within China is not even a close approximation of a socialist economy. As presented in Chapter 5, economic inequality in China is at an alarming rate that could potentially cause political

instability. Therefore, weak protection of labour rights by the state and the way production is organised in China based on the exploitation of wage labour and repression of labour rights is not socialist in any sense. The next section assesses the debate on the nature of the Chinese political economy from scholars' perspectives.

6.4 Scholarly debate on the nature of the Chinese political economy

The analysis above shows that there is weak protection of labour rights which resulted in exploitation of wage labour by capitalists. Not infrequently, the collusive relationships between local cadres and capitalists means that local cadres would disregard the violation of workers' rights that took place. While Kolo (2007) would argue that the undermining of labour rights and the failure of trade unions to uphold the workers' rights has effectively meant that China has taken a capitalist path of development. However, Arrighi (2007) and Samir Amin (2013) have their own criteria to argue that China is non-capitalist. Despite this, neither scholar explicitly refers to China as socialist, a solid position maintained by the Chinese state. Their focus is not on the social relations of productions and the treatment of the workers. For Arrighi, the main criteria is whether the state has or has not subordinated to the capitalist interest. For Samir Amin, he contends that contemporary China (even in 2013) should not be characterised as 'capitalist'. This is 'because the capitalist road is based on the transformation of land into a commodity' (Amin, 2013).

For Samir Amin (2013), China has taken a development path, based not on 'free-market' capitalism, but state capitalism that has 'the potential for a successful transition to socialism as soon as the forces of production are developed enough' (Bieler & Morton, 2018, p. 163). Though Samir Amin has repudiated the claim that China is 'capitalist' in the sense that land was never commodified even after market reforms, he concedes that China 'is indeed capitalism in the sense that the relation to which the workers are subjected by the authorities who organise production is similar to the one that characterises capitalism: submissive and alienated labour, [and]

extraction of surplus labour' (Amin, 2013). This idea is parallel to the position undertaken in this chapter.

However, Amin's (2013) belief that China did not follow a pure capitalist path that turns land into a commodity does not correspond with reality. It is true that urban lands are officially declared state-owned and rural lands remain under collective ownership overseen by local party cadres. However, by the late 1980s, the state began experimenting with selling Land-User Rights (LURs) as a way to raise capital. Amin explains that land is used as a common good and it is possible for the holders of LURs to 'rent' out the land to others but they are never allowed to 'sell' it (Amin, 2013). However, I argue that it was because the land was not owned by the people that the accumulation process specific to Chinese development can be expressed through 'accumulation by dispossesion with Chinese people being expropriated and driven from their land' (Bieler & Morton, 2018, p. 164). Kolo (2007) explains when the local government has the autonomy to plan its economic development, this often results in illegal land acquisitions.

In fact, Peck and Zhang (2013, p. 372) assert that 'by separating usage rights from ownership, pragmatic leaders effectively legitimised the transfer of land for commercial uses in the absence of de jure privatisation'. Indeed, there is ample evidence that land-grabbing practices in China were already quite prevalent in the early years of reform. In 1982, Wan Li, the vice-premier in charge of agriculture, warned about officials taking the land away from peasants, that it would drive them to become a source of cheap labour (Huang, 2008, p. 283). According to an article in the South China Morning Post, the 2013 Social Development Book published by CASS reported that about half of the 100,000 mass incidents, involving protest of more than 100 people, were due to land grabs (Huang C. , 2012). Disputes happened when lands were being confiscated and homes being demolished to make way for development. Since rural lands belong to the collectives, farmers could not sell them directly to developers, but could only do so through local governments who often reap huge profits from these transactions. While disputes sometimes happen over

disagreements regarding the price of compensation, there were also cases were lands had been taken away without any compensation (Lai, 2016). This was what happened in one village of Fuzhou, China where its peasants struggled against illegal land grabs (Cody, 2004).

In urban areas, under Chinese law, the land belongs to the state. However, the case study of Xishui Market by Yasheng Huang (2008) tells a different story. Since Xishui Market is located in Chaoyang district, a very busy district in Beijing, it would make more sense for merchants to pay high rents to the government to strengthen public finance. Yet, the old Xiushui Market was demolished to make way for an indoor market where the construction and operationalisation of the market were awarded to a private entrepreneur for an undisclosed reason. Rather than giving priority to the merchants that had stalls in the old Xishui Market, the private entrepreneur began to auction the new market stalls for bids which went as high as 4 million yuan (USD 480,000). As a result, only one-third of the merchants in the old Xishui market are able to secure stalls (Huang, 2008, p. 235). At the surface level, it would appear that the government is contracting the operation of the new market to the private entrepreneur for reasons of specialisation and efficiency, but the way in which private entrepreneur cashed in on the situation is akin to privatisation and commodification of public assets described by David Harvey (2007, p. 35).

Another example given by Huang (2008, p. 235) further illustrates that the leasing of land works similarly to the practice of treating land as a commodity. In 2006, one market in Shanghai was closed down by officials because the market was said to be selling pirated goods. However, it was reported that soon after the closure of the market, the plot was leased to a Hong Kong company for a large sum of money. It was suspected that the deal might be tainted with corruption and this coincided with the arrest of several senior Shanghai officials in charge of real estate in late 2006 (Huang, 2008, pp. 235-236). Therefore, Huang (2008, p. 236) argues that the Chinese economy today is not socialist but ‘capitalistic in a particular way’. He describes the economy as ‘crony capitalism built on systemic corruption and raw political power’

(Huang, 2008, p. 236). Huang (2008, p. 282) argues that the Chinese political system is seen to be self-serving and enriching beginning in the 1990s.

The 2007 Property Law is apparently helpful to prevent any illegal land grabbing. It appears that this law would deter any involuntary land expropriation and demolition of homes, but it remains unclear if the law still applies if the expropriation is made in the name of 'public interests' (Lee, 2010, p. 43). For sure, there is no guarantee that the new law will benefit all segment of the society equally, but the groups that lauded the new law are real estate developers and wealthy property owners. This is because Chapter 6 under the new law is devoted exclusively to the recognition of the property rights of condominium owners (Lee, 2010, p. 41; see National People's Congress of China, 2014). In addition, the 2007 Property Law assures that the renewal of residental LURs would be 'automatic' although the word 'automatic' is left undefined (Clarke, 2017). As emphasised earlier, the new law may benefit certain segments of society much more than others, but the adoption of the law also means that private property ownership has begun to be recognised in China. Since properties are built on land, automatic renewal of residential LURs would also mean that property, and therefore land, is more transferable. Therefore, it is clear that land or 'land user right' is indeed increasingly being treated as a commodity in China.

Arrighi (2007) echoes Deng's idea that there can be a non-capitalist market economy. In imperial China, Braudel argues that there is no capitalism simply because the state was hostile to any individual who attempted to make her/himself excessively rich (Arrighi, 2007, p. 332). Therefore, what matters was not the number of capitalists in an economy, but the degree of power the capitalists possess and whether they can make state serve their class interest. In Arrighi's own words:

> The capitalist character of market-based development is not determined by the presence of capitalist institutions and dispositions but by the relation of state power to capital. Add as many capitalists as you like to a market economy, but unless the state has been

> subordinated to their class interest, the market economy remains non-capitalist (Arrighi, 2007, pp. 331-332).

Arrighi argues that even after market reforms, the Chinese state by no means serves foreign and Chinese diaspora capitalist interests but instead, capitalist interests were used to serve the national interest (Arrighi, 2007, pp. 359 & p. 361). There is little doubt about the centrality of the Chinese state that has largely maintained control over the economy, specifically in the financial sector. According to Appel, one of the most important criteria that could single out China as a full-fledged capitalist economy is the control she has on capital (Appel, 2014, p. 667). The state continues to wield great power in the economy as she is in control of the allocation of important resources as well as of the SOEs. However, the way in which Arrighi distinguishes China as non-capitalist market economy by treating market (capitalists) and state as separate fails to 'understand the character of capital as a social relation and the cluster of internal relations organised around wage labour and private ownership of the means of production' (Bieler & Morton, 2018, p. 164). This is because according to Bieler & Morton (2018, p. 194), 'both the ''political'' and the ''economic'' are simply differentiated forms of the same underlying social relations of production'.

As China pursued decentralisation, the relations between the state and capital became much more complex. The increasing autonomy conferred to local government drives capitalist competition (Bieler & Morton, 2018, p. 215), which at times allows foreign investors to influence the regulations in the regions. Moreover, under the tenets of 'Three Represents' Thought, President Jiang Zemin declared at the 16th CCP Party Congress that the party is committed to representing the interests of the majority (Kahn, 2002). In Jiang (2002)'s own words:

> Emerging in the process of social changes, entrepreneurs and technical personnel employed by non-public scientific and technological enterprises, managerial and technical staff employed by overseas-funded enterprises, the self-employed, private entrepreneurs,

> employees in intermediaries, free-lance professionals and members of other social strata are all builders of socialism with Chinese characteristics. We should unite with the people of all social strata who help to make the motherland prosperous and strong, encouraging their pioneering spirit, protecting their legitimate rights and interests and commending the outstanding ones in an effort to create a situation in which all people are well positioned, do their best and live in harmony.

This representation would include extending party membership to private business owners. Such acceptance is thought to be a means to co-opt capitalists, but at the same time, it risks expanding the influence of capitalists within the party, further threatening the principle of 'socialist market economy' (JR. Wolf, 2001). Appel (2014, p. 667) argues that the control China has on capital means that regarding it as a full-fledged capitalist economy is also not without its problem. As Vermeiren & Dierckx (2012, p. 1648) argue, the control on capital has in fact allowed the Chinese state to redistribute income and wealth from Chinese workers to the Chinese corporate sector. The savings of Chinese workers were normally deposited into state-owned banks for very low interest rates, which in turned were used to provide loans to SOEs at a subsidised rate (Vermeiren & Dierckx, 2012, p. 1655).

Enterprises that are state-owned or have political connections to the CPC are the biggest beneficiaries in this authoritarian financial system. Unsurprisingly, these groups are deemed to be the strongest defenders of China's capital controls (Vermeiren & Dierckx, 2012, p. 1656). Harvey too illustrates such relations: 'When the state takes USD 45 billion of foreign exchange earned off the backs of highly exploited labour and bails out the banks to cover their non-earning loans then it may well be redistributing wealth from the lower to the upper classes rather than writing off bad investments' (Harvey, 2005, p. 158). Such rent-seeking behaviours of the Chinese government reflect the particularity of capitalism in China.

In examining the class character of the Chinese state, Ford (2009) maintains that China has been a deformed workers' state since 1949[53]. His critique of other literature that depicts China as capitalist today is that this literature reaches such conclusions because they rely on information produced by bourgeois academic sources and fail to understand China through its historical context. In Ford's (2009) own words:

> Those who wish to describe China as capitalist today all use the same method. They start from the current picture, using numerous figures and estimates from bourgeois academic sources to show that China, now, this year, is capitalist. They then work backwards to try and identify a point of transition. Was it Tiananmen Square in 1989, or Deng's speech at the XIV Party Congress in 1992, the incorporation of Hong Kong in 1997, or China's accession to WTO in 2001, or even the passing of laws explicitly protecting private property in 2004? They prioritise present day impressions over historical analysis and understanding.

While Ford (2009) offers a strong critique, it can be argued that he is guilty of doing the same things of which he accuses opponents. He perceives China as a deformed workers' state based on the presumption that it resembles the Soviet Union in the 1920s. However, the debate about whether the Soviet Union under the leadership of Stalin was a workers' state or state capitalism is still unresolved today (see Harman, 1990). Furthermore, Ford (2009) argues that since 1949, there has been no qualitative change in the character of the state apparatus and so it remains essentially a deformed workers' state albeit capitalism has been let loose. My first concern comes from the uncertainty as to whether the Chinese Communist revolution has ever led to a

[53] A deformed workers' state is a state where the economy is largely state owned and planned by privileged bureaucracy without workers' democracy (see Walsh, 2009)

formation of workers' state since the revolution was organised largely around the peasantry[54].

There was indeed nationalisation of all sectors of productions under Mao and a common belief has equated nationalisation with socialism, but Rühle 1924 [1974] tries to differentiate between the two: 'Through nationalisation you can arrive at a large-scale, tightly-centrally run state capitalism, which may exhibit various advantages as against private capitalism. Only it is still capitalism' (as quoted in Howard & King, 2001 p. 113). Therefore, some would refer to the Mao era which sees control of all sectors of productions as state capitalism (Hardy & Budd, 2012). In this sense, it has been argued that China is never a deformed workers state even in 1949.

The second concern is that although Ford (2009) argues that the character of the state apparatus remained the same as the one established in 1949, it should be noted that the political leaders who led the economic reforms in the late 1970s were those who had been labelled 'capitalist roaders' and were previously purged by the CPC top leadership. This means that even if China was really a deformed workers' state under Mao, China after market reforms would not continue to be a deformed workers state as the CPC leadership is no longer representing the interest of the workers. Harris explains that a new state reconstructed through getting rid of the social foundations of the old state could once again degenerate into a force that opposes the majority. This could happen when 'the State became independent of its social basis, the working class' (Harris, 2015, p. 189). As discussed in this chapter, the pervasive exploitation of workers and continued repression of labour rights provides telling evidence that the Chinese state after market reforms is not acting in the interest and for the welfare of the workers. Hardy & Budd (2012) argue that the market reforms 'gave rise to a new model of capitalist accumulation, which combined the high level of exploitation

[54]The radical agriculture policies during Great Leap Forward has worsen the famine as local cadres had set high quota in response to the initiative by central authorities. Grains continued to be supplied to urban areas and also been exported.

and repression of the old state capitalist model with growth predicated on exporting to global markets'.

Therefore, it is in the interest of the CPC to maintain that China is socialist despite the fact that the adoption of a market economy has fundamentally changed the social relation within China. This analysis points out that the relations of production in China are capitalist, building upon exploitation of wage labour and repression of labour rights. This is more so when the state normalised wage labour in 1994 Labour Law and private property rights were further guaranteed under 2007 Property Law (Peck & Zhang, pp. 370 & 372). Unlike the assertions of Samir Amin, empirical evidence shows that land in China has been commodified after market reforms. Therefore, the analysis confirms the Chinese political economy is capitalist and its market reforms has transformed it into a regime that creates more favourable conditions for the accumulation of capital through the subordination of workers.

6.5 Conclusion

At the empirical level, China's political economy is capitalist. The justification of the Chinese position on 'Socialism with Chinese Characteristics' is here found to be unconvincing. Empirical evidence shows that the promise of the Chinese state to build a socialist society is left largely unfulfilled. In particular, in a speech made in 1992, Deng said that socialism would help to eliminate exploitation and polarisation and allow people to achieve common prosperity. Despite not being able to achieve these goals, empirical evidence shows that conditions of super exploitation of workers exist, accompanied by high inequality in income distribution. Moreover, the CCP pledge to represent the interests of the majority of the people, which includes private business owners, has eroded the essence of socialism. With the inclusion of private business owners in the Communist Party, their influence could expand in the party and impinge on the decision-making process. In fact, the Chinese government, particularly local government, has engaged in rent-seeking activities that benefit them, sometimes at the expense of the workers.

There were a group of scholars represented by Samir Amin (2013) and Arigghi (2007) who argue that China is non-capitalist. The rationale of Samir Amin (2013) that regards China as 'socialism of the market' or 'socialism with the market' on the basis that land is not being commodified is questionable when in fact the practice of commodification of land and exploitation of labour power that is at the heart of capitalism are clearly observable in China. On the other hand, Arrighi (2007) argues that the state is not subordinated to the capitalists as a class, and therefore China is not truly capitalist. However, the criteria defined by Arrighi (2007) is not sufficient to characterise Chinese political economy as non-capitalist. I argue that it is not clear whether or not the Chinese state is serving the interest of capitalist. Nonetheless, there is strong evidence to show that the state is not serving the interests of the workers. In this sense, China is capitalist.

Apparently, the social relations of production within China are those specific to capitalism, with capitalists owning the means of productions and extracting surplus value through the exploitation of wage-labour. Though there are state-owned enterprises, the state only employs 12 percent of the total labour force in the industrial sector (Naughton, 2017, p. 7). As such, the exploitation of workers by private business owners is more prevalent as the employment opportunities are higher in this sector. Under President Xi, the conditions of the people are said to have largely improved. The government rolled out a series of measures to eliminate poverty and improve the social security safety net, which were commendable. However, the coverage of the social security safety net has not been fully developed and it was often accompanied by continued weakening of labour rights. Therefore, analysis confirms that the Chinese political economy is indeed capitalist. Despite this, there is no consensus to whether China constitutes a variety of capitalism based on a free-market development model or a state-led development model, which leads us to question, 'If Chinese political economy is capitalist, what variety of capitalism it is?

CHAPTER 7

CHINA'S VARIETY OF CAPITALISM

7.1 Introduction

In search of the Chinese Development Model, this thesis has brought us to question if China is capitalist as widely purported by existing literature (Hardy & Budd, 2012; Huang, 2008; Kolo, 2007) or whether the Chinese political economy conforms to a minority view that regards it as non-capitalist (Samir Amin, 2013; Arrighi, 2007). Official claims that China is socialist has also been examined. In Chapter 6, I asserted that the Chinese political economy is capitalist because it is organised around the exploitation and polarisation of the working class by the capitalist class. The state recognises that the suppression of workers have taken place, but do little to held capitalists responsible. Most importantly, China has turned into one of the highly unequal society, which is againts the essence of socialism upholds by Deng. Moreover, the idea that land belongs to the state or collective and thus has not being commodified is misguided. This is because empirical evidence points out that the land (user right) has in fact being highly commodified with land being seized away from the peasant to the hands of private developers.

In the study period from late 1970s up to recent years, we have witnessed pervasive exploitation of the working class and very unequal distribution of wealth. This has clearly showed that the Chinese state has failed to follow the socialist path of development after reforms. The conditions of the people have been gradually improved with national government introducing and later expanding the coverage of basic social services. However, it is still too early to judge if such efforts would contribute to a relatively egalitarian society. While the social security safety net has been expanded, labour rights continued to be undermined with the repression of labour NGOs and independent news reporters who covered protests and strikes in China.

In assessing the Chinese Development Model, I posit that the Chinese political economy is capitalist as demonstrated in Chapter 6, but scholars who propose that China is capitalist have different opinions with regard to the particular variety of capitalism China has adopted. Two development theories, notably Modernisation Theory and Developmental State Theory have competing explanations. The variety of capitalism proposed by Modernisation Theory is based on a free-market development model. In contrast, the variety of capitalism or alternative capitalism proposed by Developmental State Theory is based on a state-led development model. The broad question raised by modernisation theory is the centrality of market-led policies and liberalisation in the development of the economy. The criteria for state led development are an adherence to the goal of development; the autonomy and capacity of the state; and the relationship between state and private business. The discussion is organised around interrogating these claims.

There is also existing literature that has moved beyond the dichotomy of Western Development Model (Free-market Development Model) versus East Asian Development Model (State-led Development Model) in their discussion of the China Model. The literature suggests that China offers a unique development model of its own. The first scholar who attempted to derive a 'China Model' was John Cooper Ramo. Ramo argues that China's development approach, the Beijing Consensus, offers an alternative to the neoliberal Washington Consensus approach (Zhao, 2010, p. 421).

The Beijing Consensus is based on the core tenets which consist of willingness to innovate, pursuit of sustainable and equitable development, and emphasis on self-determination, which surprisingly, China has failed to demonstrate (Zhao, 2010, p. 421). Kennedy (2010, p. 461) too argues that Beijing Consensus does not truly capture China's actual reform experience. This is because there were important features of China's developmental experience that have been largely excluded by Beijing Consensus causing a lack of acceptance among world-wide China scholars on

the concept (Lai, 2016). Moreover, the Beijing Consensus does not constitute a model but rather it 'serves as an alternate global order' (Hsu, 2015, p. 1756). Kennedy (2010, p. 473) also points out that there were so many interpretations of China Model and thus, it is difficult for scholars to agree on what constitutes the China Model. Despite the differences, the China Model is much more commonly described as state capitalism due to the dominance of SOEs in the economy. However, the idea of state capitalism is dissimilar between the Marxist literature and the current development literature. In the former, state capitalism is taken to mean the sole ownership of production by the state (Pannekoek, 1936) while Bremmer (2009) argues that state capitalism refers to dominance of SOEs in the economy existing along privately owned national champions backed by the state. Most importantly, Bremmer (2009) asserts that '[o]ne essential feature of state capitalism is the existence of close ties binding together those who govern a country and those who run its enterprises'. This characterisation of the China Model as state capitalist is in fact in line with the third assumption of Development State Theory. Therefore, if understood on this basis, state capitalism can be conflated into the East Asian developmental model.

In the discussion of the China's unique model, Pan Wei from Beijing University (as summarised by Zhao 2017, pp. 3-4) contends that:

> The China model featured state-led economic development, including the state control of land and raw materials of production; state-run financial industry and large-scale enterprises; a free labour market and free commodity and assets; and the communist party leadership produced by a unique selection and evaluation mechanism of officials and an advanced, selfless and united ruling group.

Instead of being unique, the China model explained by Pan is rather familiar as it resembles and is closely related to the three main assumptions raised by Developmental State Theory in Chapter 3. While there have been attempts to construct a distinctive China Model, a close examination at the literature reveals that

the discussion of the China Model has never gone beyond the two successful development models in modern history – the Free-market Development Model of Western economies and the State-led Development Model of East Asian economies that were clearly set forth by Modernisation Theory and Developmental State Theory. Moreover, I argue that the attempt made by scholars to abstract a 'China model' based on government policies, political system, or any other aspect would lead to diverse types of China Model because of the different interpretations undertaken.

As emphasised in the section on scientific contributions in Chapter 1, the conceptual approach adopted in this thesis generally, and specifically in this chapter, is a novel effort as there is no known existing literature that has tried to offer a comprehensive theoretical understanding of the Chinese political economy. As various theories have laid out important aspects, it helps to narrow the scope of research. Without the guidance of these theories, this would involve more complexities in answering the research question of this thesis. This is exemplified by the emergence of numerous terms used to describe the Chinese development model. This includes but is not limited to bureaucratic capitalism (Meisner, 1999), authoritarian capitalism (McGregor, 2012) and Sino-capitalism (McNally, 2012). Therefore, the search for a China model would best begin by drawing inspirations from theories.

Moreover, it is the aim of this chapter to identify the economic development model of China, and the focus on the role of the market versus the state is crucial in this respect. This also means that my analysis will depart from the institutionalist approach employed in the 'varieties of capitalism' framework that was widely adopted by other scholars (see Peck & Zhang, 2013). As discussed in Chapter 3, Modernisation Theory and Developmental State Theory were built by deducing the developmental trajectories of Western and East Asian economies respectively. These two groups of countries represented different varieties of capitalism but have both produced remarkable economic performance through their distinctive development models. As such, it is imperative for me to discover whether China's economic success resembles one or the another. Therefore, I have engaged with Modernisation

Theory and Developmental State Theory to shed light on the variety of capitalism China has adopted, thus its economic development model that has not only delivered economic development but also brought about the potential for developmental catch-up to happen.

The following sections are organised as follows. The first section outlines the assumptions of Modernisation Theory about the Chinese Development Model. The second section engages and assesses those assumptions by looking at empirical data as well as making reference to existing scholarship. The next section outlines the assumptions of Developmental State Theory about the Chinese Development Model. Similarly, these assumptions are assessed using data as well as drawing reference to the existing literature. Through this engagement, we would expect to see which variety of capitalism, and thus development model China has adopted and which has contributed to the country's impressive economic performance. The last section includes concluding remarks. A thorough analysis of the theories' assumptions confirms that China after reforms followed the variety of capitalism based on State-led Development Model.

7.2 Modernisation Theory's Expectations of the Chinese Development Model

Since Modernisation Theory is built upon the developmental trajectories of the advanced industrialised Western countries, this theory would undoubtedly argue that only states that embarked on the process of modernisation would be able to develop rapidly and catch up with the advanced industrialised states. My analysis in Chapter 4 confirms that there is economic development in China and subsequently in Chapter 5, I confirm that the Chinese level of development has gradually converged with advanced industrialised countries, with the potential for developmental catch-up. Despite this, the development is characterised by unevenness.

Modernisation Theorists argue that China has achieved such remarkable development because she has adopted a free-market development model, one that advocates for

openness of the economy in the pursuit of industrialisation. In Chapter 4, I argued that the build-ups of social overhead capital by Mao's government and subsequently during Deng's era have been crucial for China to achieve economic development. These findings confirmed part of the arguments of Modernisation Theory, but does not fully show whether China has indeed adopted a free-market development model. As discussed in Chapter 3, there are two main assumptions raised by Modernisation Theory in relations to the varieties of capitalism based on the Free-market Development Model.

First, apart from the role of the government in providing conditions for growth, a willing and capable national government must also push for openness in the economy through market-friendly policies. This form of state intervention differs from the one espoused by Developmental State Theory. It is believed that policies that increase the openness of the market are important to produce growth in developing countries. In particular, Modernisation Theory encourages expansion in the import of goods and possibly capital. Second, Modernisation Theory believes that further integration into the global economy would make a state better-off. Therefore, developing countries should continue to pursue full liberalisation of the economy. Hence, if China adopted Free-market Development Model as maintained by Modernisation Theory, the Chinese government would first formulate and implement market-friendly policies and subsequently seek to fully liberalise its economy.

7.2.1 China Model: Free-market Development Model?

As discussed above, Modernisation Theory has two expectations about the China Model. First, China must have a willing and capable national government that pushes for openness of the economy through market-friendly policies. Second, China must be committed to full liberalisation of its economy. After the death of Mao Zedong in September 1976, Deng Xiaoping and his supporters emerged as victors in the power struggles within the Party. As China was plagued with the disastrous impact of the Cultural Revolution, the newly formed party leadership believed that reforms and

opening-up provide the path to a better China. Therefore, the top leadership reversed Mao's policies of command economy (Benson, 2016, p. 47). Under the leadership of Deng Xiaoping, China advanced the 'Four Modernisations', first put forth by Premier Zhou Enlai, which aim to modernise agriculture, industry, national defence, and science and technology. The first reform was in agriculture first trialled in Sichuan. The government instigated a contract responsibility system which allowed communal land to be rented out for private farming.

After fulfilling the quota demanded by the state, farmers could sell the remainder of their crops to the newly established 'free markets' in Sichuan (Benson, 2016, p. 48). As farmers were allowed to sell surplus crops for money, crop production has dramatically increased. The reform in agriculture has increasingly allowed market mechanisms to determine the price of crops. Besides, farmers were free to engage in exchange, which was not permitted in the command economy. This change has arguably helped the Chinese transformation into a market economy. Besides internal reforms, the Chinese leadership is also committed to open the door to the outside world. As Modernisation Theory emphasises the expansion of imports of goods and capital, I can examine the government policies to see if it serves this goal.

Following the pledge to reform and open up the economy, the Chinese leadership had experimented with the establishment of SEZs in 1980. Foreign investors who invested in the special zones can enjoy many privileges. For instance, foreign firms are entitled to a 15 percent tax waiver on the first and second years' profits and into the third and fourth years, the firms could receive 50 percent tax exemption (Benson, 2016, p. 50). Coupled with the low labour cost, the benefits of establishing firms in China were very appealing to foreign investors. Yet, in the initial stage of opening-up, many foreign investors are still sceptical about investing in China as the country's legislation was not fully developed (Chen & Wang, 2010, p. 47).

Over the years, with improvements in legislation and infrastructure, FDI began to flow much more rapidly into China. The result of the opening has made China the top

FDI destination in recent years. In 2014, FDI received by China has increased by 1.7 percent as compared to 2013, amounting to USD 119.6 billion (WTO Secretariat, 2016, p. 9). The inflows of FDI continued to surge to USD 249.8 billion in 2015 (World Bank, 2016a). Market-friendly policies are also evident in the reduction in its tariffs in compliance with WTO rules. The simple average Most Favoured Nation (MFN) applied tariff rate was reduced from 15.3 percent in 2001 to 9.9 percent in 2015 (Hong Kong Trade Development Council, 2017). The reduction in tariffs has enabled trading activities to increase. In 1978, the total value of imports and exports was USD 206,400 million and a year after the Tiananmen Square Protest, facing sanctions from the US and its allies, the trade volume in 1990 at USD 1154,400 million was still four times larger than that in 1978 (Harding, Whiting & Ross, 1990, p. 5; National Bureau of Statistics China, 1996, p. 580). Moreover, Knight opines that the expansion of trade has helped to promote efficiency and growth (Knight, 2014, p. 1341).

Coase & Wang (2013) and Lardy (2014) believe that China has successfully transformed into a market economy. Coase & Wang (2013) maintain that the market has been sufficiently robust for exchange to take place, which was attributed by rapid economic liberalisation although China remains under one-party rule. Lardy (2014, p. 2) argues that the driving force behind China's phenomenal and sustained growth is its adherence to market forces as well as its growing private sector. Acknowledging that parts of the economy remained under the protection of the Chinese state, Lardy maintain that the Chinese economy is sufficiently competitive to be regarded as a market economy.

According to Lardy, the claim that China is highly regulated based on the role played by China's banks in the allocation of capital fails to take account of 'the fundamental transformation that has occurred in the way capital is allocated in China' (Lardy, 2014, p. 21). Lardy points out that at the outset of reform in 1978, the state budget financed virtually all investment, 95 percent, but the share of investment from state budget had been declining after the reforms. The share of investment through the

state budget declined from less than one fifth in 1985 to under 3 percent by 1996 (Lardy, 2014, p. 22). Instead of state financing, investment is increasingly financed by the retained profits of enterprises and to a lesser extent by bank credit. As such, Lardy argues that capital allocation has become more efficient and thus able to contribute to faster economic growth (Lardy, 2014, p. 22).

Lardy further asserts that, although price controls still apply to certain strategic sectors dominated by SOEs, in general, the system of price control had gradually eroded in China. Market pressures and impulses have become more important in setting prices (Lardy, 2014, p. 14; Peck & Zhang, 2013, p. 372). Market forces now determine about 95 percent of consumer prices (Bardhan, 2010, p. 244). The private sector has produced more than 70 percent of industrial output value in 2011 (Lardy, 2014, p. 72). Peck & Zhang (2013, p. 372) assert that many scholars acknowledge that the private sector has contributed to the growth of the overall economy in recent years, which is estimated to be 50-70 percent of GDP. The reduced tariffs and increasing FDI indicate the increasing openness of the Chinese economy. The loosening of state control over price-setting also implies that there is now a more prominent role for market forces. Indeed, the Chinese government took many liberalisation measures, including removing the barriers to trade and investment to ease the way for foreign investment. I also acknowledge the growing vibrant private sector alongside SOEs. However, while the Chinese government had gradually opened up the economy, at the same time, the government has also used various measures to guide investment and trade.

While the high rates of FDI do indicate China's economic openness, it should also be noted that the Investment Catalogue always guides FDI. The catalogue clearly outlines areas that are encouraged, restricted and prohibited for foreign capital. It has been reported that the current investment catalogue continues to promote joint ventures between Chinese and foreign firms (WTO Secretariat, 2016, p. 10). The 2010 State Council circular reiterates the government's aim to ensure that FDI is aligned closely with national objectives. Due to this approach, the Chinese state has

encouraged MNCs to establish Research and Development (R&D) Centres with the hope that foreign enterprises could introduce advanced technology into China (Davies, 2013, p. 23). Some of the policies to attract the establishments of R&D centres include discounted rate of income tax (subject to terms and approval), and exemption from sales tax on the income gained from technology transfer if the technology is developed solely by foreign-invested companies (Long, 2005, p. 330).

In addition to the privileges offered by the Chinese national government, regional governments also offer numerous preferential policies to foreign-invested companies so that they establish R&D centres in their regions. In addition, under the Law on Wholly-Owned Foreign Enterprises, the state encourages foreign investments that are export-oriented and use advanced technology (MOFCOM, 2003, January 14). Although the term 'encourage' is used in the law, *Harvard Business Review* finds that unless the Wholly Owned Foreign Enterprises can provide something the state wants, they were required to meet at least 50 percent of the export quota (Vanhonacker, 1997). This restriction was removed in 2001, but it also meant that for more than two decades of reforms, foreign investors were restricted from forming wholly-owned enterprises.

There are a number of WTO rules that China must comply with since its accession to the WTO. As a result, tariff rates have been reduced substantially over the years. However, China has complied less with the rules to remove requirements for FDI notably in its requests for technology transfer. According to the investment catalogue, in the automobile sector, the government has encouraged foreign investors to enter into joint-venture. In the joint-ventures, foreign firms should not own more than 50 percent of the total shares and are required to transfer technology to their domestic partners (Long, 2005, p. 334). In addition, the introduction of the 'swap market for technology' strategy adopted in China means that foreign investors are required to 'import' advanced technology in order to enter the domestic market (US Department of State, 2014, p. 8; Long, 2005, p. 334).

Despite the promise to remove any intervention that violates the rules of WTO, a report by the US Department of State still finds that localities prefer investments that help to develop certain industries and support local employment (US Department of State, 2014, p. 17). An annual report by the US-China Economic and Security Review Commission to the Congress has highlighted the considerable market access barriers faced by US financial service companies in China, which 'include informal and formal bans on entry, equity caps, licensing restrictions, and data localisation requirements' (US - China Economic and Security Review Commission, 2017, p. 6).

Moreover, according to Ma, the Chinese government has deliberately attracted FDI that was export-oriented. 'The rapid growth of foreign investment and their strong export orientation was a result of some deliberate policies of the Chinese government' (Ma, 2000). One of the few ways the Chinese government attracts foreign-invested firms to engage in exports is by exempting tariff and taxes for inputs used in processing goods made for export. While imported inputs used by foreign-invested firms to process products for export are exempted from tariff and taxes, products that are not exported and are sold domestically are charged the relevant tariff and taxes (Long, 2005, p. 326). Moreover, enterprises which exported more than 70 percent of their products could receive a 50 percent reduction in corporate income tax (Long, 2005, p. 322).

In relation to the first assumption of Modernisation Theory, the Chinese government indeed formulates and implements market-friendly policies. However, it is important to note that this was done alongside measures that aim to shape the economy in a certain direction. The Chinese government uses formal and informal ways to influence how trade and investment play out in China. Therefore, although there are market-friendly policies in place, nevertheless, the role of the state is not limited to pursuing market openness. China has only conformed partially to the first assumption of Modernisation Theory. It is imperative to assess the second assumption of Modernisation Theory. Only by drawing together the first and second assumptions of

Modernisation Theory can I accurately determine the type of development model China has adopted that has given rise to the fast-growing Chinese economy.

The second assumption of Modernisation Theory is that China would pursue full liberalisation of the economy. After reform, China has increased the openness of its market to foreign investors. Osburg argues that many see the deepening of the market reforms and integration of China into the global economy as an indication of China marching towards the neoliberal Anglo-American model of capitalism (also known free-market capitalism) (Osburg, 2013, p. 821). President Xi has promised to continue to open up China's economy and to deepen financial reforms. In a speech to international community at 2017 World Economic Forum at Davos, Xi openly championed globalisation (Parker, 2017). Domestically, similar stance is adopted by Xi. In a keynote speech at the Communist Party Congress, President Xi said that 'China will push ahead with market-oriented reforms of its foreign exchange rate as well as its financial system, and let the market play a decisive role in the allocation of resources' (Glenn, 2017).

Despite the promise of deeper reforms by President Xi, China Daily reports that progress has been slowed in recent years. Particularly in the financial sector, the foreign stake in the stock market and bond market remains minimal at 5 percent and 2 percent respectively (Wang, 2017). The control over fluctuations in the value of the yuan remains at the disposal of the state. As of October 2017, the South China Morning Post reports that the current rules only allowed the yuan to fluctuate up to 2 percent before the People's Bank of China introduces any controls (Liu, 2017). Ironically, Xi promised deeper reforms and liberalisation while simultaneously emphasising bigger and stronger state firms. Despite the official support for market reforms, many analysts believe that the state-centered approach to economic policy will triumph over market liberalisation under Xi (Glenn, 2017).

There were notable achievements in liberalisation of capital accounts, such as the internalisation of renminbi (RMB), but in recent years, roll-back has been observed.

In August 2015, there was a minor devaluation of the yuan followed by a speculation that made the yuan fall further, which compelled the government to tighten its capital controls (The Economist, 2017, October 14). The capital controls remain in place and internalisation of the currency is unlikely to resume anytime soon. The *Financial Times* reported that the Chinese state has also taken a more aggressive stance to manage capital outflows. Each Chinese citizen has been limited to RMB 100,000 overseas withdrawal using Chinese bank cards whereas in the past, this limit is set for a single bank card (Clover & Mitchell, 2017). In addition, to maintain the level of foreign reserves, foreign acquisitions through offshore entities will now need approval by the state (Clover & Mitchell, 2017).

Since its reforms, the Chinese government has been easing restrictions to capture inflows of foreign capital. However, Osburg argues that in recent years, foreign capital has been less welcome (Osburg, 2013, p. 821). According to Osburg, Hung Ho-Hung (2011) has captured and conceptualised this change in a useful way. In the early stage, China was subjugated by global capital but as time passes, China has become more independent and defiant (Hung Ho-Hung, 2011, p. 143, as cited in Osburg, 2013, pp. 821-822). The changing attitude of China towards foreign investment can be better understood through the OECD report:

> The 2010 OECD FDI Regulatory Restrictiveness Index score for China shows a marked improvement over that for 1997, declining from just over 0.6 to below 0.5 (a score of 1 is wholly closed, 0 is wholly open)… the 2010 score is slightly higher than that recorded in 2006, suggesting that the liberalisation process has slowed (Davies, 2013, p. 33).

In my view, the liberalisation process has not only slowed but has even reversed. This counters the idea that China will pursue full liberalisation of the economy. It is hardly disputed that China is now much more liberalised than it used to be several decades ago. There has been liberalisation of trade and investment, which have attracted massive FDI inflows and caused a surge in global trade. However, a deeper

examination of the issue reveals that foreign trade and FDI are constantly guided by catalogues and standards set by the government. Other regulatory measures affecting trade include non-tariff and tariff barriers. Though these measures are not uncommon in other market economies, the scale, scope and reach of the measures is far more pervasive in China. Most importantly, it can be observed that China has reversed the progress in liberalisation. Therefore, taking together first and second assumptions of Modernisation Theory, I can conclude that China does not adopt a free-market development model, a variety of capitalism that champions the free-market system. In the following sections, I assess whether the Chinese development model is akin to the state-led development model as purported by Developmental State Theory.

7.3 Developmental State Theory's Expectations of the Chinese Development Model

There is a theoretical divide over whether East Asian economies conform to the Free-market Development Model purported by Modernisation Theory or represent a distinctive development model (state-led model). For instance, the economic success of the Korean state is often thought to be the result from its adoption of free-market economy, which has been challenged by Chang (1993). Chang (1993, p. 134) argues that abundant empirical evidence shows that state role has been prominent in Korea during its rapid industrialisation. Therefore, Developmental State Theory contends that the variety of capitalism adopted by East Asian economies, is essentially different from that of Western economies. This variety of capitalism is also referred to as 'alternative capitalism' in contrast with the Anglo-Saxon capitalist economies (Johnson, 1999, p. 32). East Asian economies adopted a state-led development model, more commonly known as the East Asian Development Model. In contrast with the role of the state in the free-market development model, the state in this model intervenes directly in the allocation of capital and resources to specific industries. Johnson (2000) in his account of Japan's developmental experience had concluded that, although Japan is a capitalist economy, its variety of capitalism is different from the Anglo-Saxon capitalist economies. Therefore, as discussed in Chapter 3, there are

three main assumptions of Developmental State Theory in relations to the variety of capitalism (alternative capitalism) based on state-led development model.

First, a developmental state puts the goal of economic development above all other goals. As such, the state will pursue this goal by formulating and implementing sectoral industrial policies that will usually boost investment. Selected industries are supported by the government through subsidies or protection from competitors. The rest of the industries are free to operate in accordance with the logic of the market. Hence, if China indeed adopted the State-led Development Model similar to Japan, South Korea and Taiwan, other goals are expected to be subordinated to economic development. Besides, China would have sectoral industrial policies that aim to provide support for strategic industries.

Second, the government is seen to have the capacity and autonomy to determine the course of development. A small elite group of bureaucrats is selected through meritocratic forms of recruitment to formulate and implement policies that are conducive to the growth of the economy. As such, if the Chinese economic development model resembles the state-led development model, it is expected that an able and autonomous government would be involved in steering the direction of development. The Chinese government would be expected to recruit elite bureaucrats based on a meritocratic system. The meritocratic system gives rise to capable bureaucrats who have been endowed with autonomy to formulate and implement policies that would allow China to achieve its single objective of economic development.

Third, there is expected to be a close relationship between the state and private businesses because of the control the state has over important resources. This relationship is important to ensure that there is effective information exchange, particularly on guiding private firms to realise national objectives. Equally, the relationship is important for the state to receive feedback to enable the better formulation of policies. Therefore, if China has adopted a state-led development

model, I would expect to find cooperative relationships between state and private business as a result of Chinese state control over important resources. This form of relationship is expected to produce developmental outcomes.

7.3.1 China Model: State-led Development Model?

As discussed above, Developmental State Theory has three assumptions about the China model. First, the Chinese state is expected to put economic development above other goals. Second, the Chinese state is expect to have the capacity and autonomy to steer the direction of the economy. Third, there is a close relationship between the Chinese state and private businesses that can help to realise the national goal. Osburg contends that 'China in many ways fits into the ''East Asian Development Model'' of state-governed economic growth, in which government ministries strive to promote policies that support export-oriented domestic industries and sustain high-speed economic development' but at the same time, he recognises that 'the complexities of Chinese state administration, with conflicting interests at the national and local level, as well as between various ministries, and competition among SOEs make coherent planning and implementation of national-level economic policy extremely difficult' (Osburg, 2013, p. 823).

On the other hand, the emphasis on the role of private sector in driving rapid growth in East Asian economies has overlooked the role played by SOEs in the development process. Huang (2008, p. 239) argues that East Asian economies are different from China because they have much higher levels of private ownership. However, SOEs have also been part of East Asian economies, controlling strategic sectors. For example, before the privatisation that took place in the 1980s, the Japanese government controlled the tobacco industry, domestic telephone and telegraph services as well as the railways (Sakoh, 1986, p. 1). Similarly, during rapid growth in South Korea, the government established government enterprises in energy, infrastructure, and other sectors with the intention to manage strategic sectors and this was the same in Taiwan where strategic sectors such as chemicals and shipbuilding

were all state-owned enterprises during their rapid growth and some continued to be owned by the government (Yeung, 2017, p. 6; International Business Publication, 2009, p. 64).

The difference is the size and number of SOEs in China. China's SOEs are much bigger than in classical developmental states because of the sheer size of its economy. This could be a major difference between China and other East Asian economies, but pointing to its engine of growth to disprove China as developmental state is simply not sufficient. This is because the development of Japan, South Korea and Taiwan have their own specific dynamics, yet they broadly confirm the three assumptions of Developmental State Theory (Chang, 2010). Therefore, it requires a careful assessment based on the three assumptions to determine whether China does or does not resemble the state-led development model.

At the end of Mao era, China was faced with a number of challenges. There was a 6.5 billion yuan deficit, and millions were left undernourished and unemployed. The new leadership under Deng believes that economic advances would be the solution to these problems (Benson, 2016, p. 47). On 4 October 1979 in a speech to the first secretaries of Communist Party of China at provincial, municipal and autonomous regional level, Deng clearly conveyed that '[e]conomic development should be the central task of Party committees at all levels' (Deng, 1979, October 4). Though economic development had also been central during Mao's rule, there had been temporary shift to focus on domestic political struggles in the 1960s which had stopped the pursuit of economic development. Premier Zhu Rongji reaffirmed the central task of economic development in the report of the Tenth Five-Year Plan for National Economic and Social Development (Zhu, 2001).

Under President Hu Jintao's reign, the CPC again pledged to keep economic development as the central task. In delivering the work report at the 17th Party Congress, President Hu reaffirmed the party's commitment to the central task of economic development, which was included in the Scientific Concept of

Development (Hu, 2007, October 15). Economic development continued to be treated as the main objective as attested by the 13th Five Year Plan (National People's Congress of China, 2016, p. 18). The pledge to adopt and maintain economic development as the central task was also conveyed in a meeting with members of CPC. This means that the responsibility to pursue economic development is shouldered by both party members and bureaucrats alike.

Since reform, China has relentlessly pursued the single objective of economic development. The emphasis placed on growth is evident by looking at the criteria used in the assessment of cadres. Most often, local GDP and FDI were an important criterion in the assessment (Knight, 2014, p. 1339). According to Knight (2014, p. 1339) there are many sources (Maskin et al., 2000; Chen et al., 2005; Li & Zhou, 2005) which argue that the promotion or termination of officials is related to the economic growth of their localities, though this remains highly debatable. Knight acknowledges that collusion among local governments could allow them to pursue their own objectives. Despite this, Knight argues that most of the literature is in broad agreement that the personnel system does provide effective incentives for the promotion of the central government's growth objectives (Knight, 2014, p. 1340).

In particular, property development serves the vested interest of the party-state, individuals officials and businesses as 'it generates (at least in the short-term); economic growth; windfalls profits for the connected; and tangible, albeit somewhat shaky, evidence of China's modernity to the outside world' (Osburg, 2013, p. 825). The assertion that China has accorded economic development as the highest priority is uncontested (Lai, 2016). Naughton (2016, p. 106) observes that safety and work conditions as well as environmental implications were disregarded by the Chinese leaders in the growth process. Unquestionably, China has devoted its national energies to economic development and my observation indicates that similar to other East Asian economies, China has an industrial policy. This type of policy is specific to developmental states pursuing rapid growth.

The Five-Year Plan introduced by China was meant to provide a general outlook of the expectations and objectives of the national government (Naughton, 2017, p. 12). In the Five-Year Plan, the central government would normally set binding targets that ought to be achieved during the period of the plan. Accordingly, local governments would come up with plans that have been incorporated with national objectives. Naughton (2017, p. 12) notes that in the early 2000s, the State Council has approved very few industrial policies but by 2016, there were at least 50 sectoral plans in accordance to the 13th Five Year Plan. Pre-reform industrial policy was designed to replace market forces by setting production targets and allocating resources to public enterprises. In contrast, after reform, China has been emulating Japanese-inspired industrial policy that aims to preserve 'market competition and enterprise autonomy' (Heilmann & Shih, 2013, p. 2). Seeking to reconcile its socialist past with its market-oriented reforms, the government only began crafting a national industrial policy (Japanese-inspired) in the late 1980s (Heilmann & Shih, 2013, pp. 2-3).

In 2015, the Chinese government introduced 'Made in China 2025', an industrial policy that aimed to transform or upgrade Chinese industry into high-tech manufacturing. This industrial policy has identified several key technologies that local firms should focus on developing. This includes supercomputers, industrial robots, and smart car technology products. As with other industrial policies, the government has allocated massive funds and resources to ensure the success of 'Made in China 2025'. One of the goals is to raise the local content of core technologies to 40 percent by 2020 and 70 percent by 2025 (Kennedy, 2015). It is hoped that local firms can replace foreign firms as the designers and manufacturers of key technology and products, first for the local market, then abroad. According to the claims in a US government report published in 2017, the strategies used to achieve the goal include 'state funding, regulations, China-specific standards, localisation targets, government procurement, foreign investment restrictions, recruitment of foreign talent, close integration of civilian and military technology development, and in some cases, industrial espionage' (US - China Economic and Security Review Commission, 2017, p. 20). The report further alleges that the openness of the US and other market

economies has allowed China to gain access to advanced research and data. As a response to US allegations, Chinese Foreign Ministry spokesperson Hua Chunying refuted the erroneous assumptions that China had engaged in unfair trade practices (China Daily, 2018, July 16).

While accusations such as industrial espionage is harder to prove, there is strong evidence to suggest that there were subsidies given by the Chinese government to targeted sector/industry as discussed below. Some of the subsidies were even widely reported by Chinese state-run media as not all subsidies are controversial and prohibited by WTO (Global Times, 2018, November 5; China Daily, 2018, June 13). Moreover, one of the commitments to WTO accession is that China is to submit yearly notification to WTO about its subsidies[55]. In a long-delayed report to the WTO, the Chinese government states that they had 78 subsidy programs between 2001 and 2004, which were distributed and monitored by a number of central government ministries and agencies (Haley & Haley, 2013, p. 31; WTO, n.d.). The report, however, does not include subsidies provided by provincial and municipal governments. Therefore, it is likely that the subsidies in China are far more extensive than what was reported and some subsidies are challenged by the US on the basis that it contradicted WTO requirements. This is further discussed below.

In defence of the view of China as a market economy, Lardy argues that despite extensive government subsidies, the sums involved have actually declined over the years (Lardy, 2014, p. 35). In 1992, subsidies accounted for 6.5 percent of GDP, followed by a decrease of 1.2 percent the next year. Between 1990 and 1994, the subsidies averaged 4.9 percent of GDP (Haley & Haley, 2013, p. 31). At first glance, the declining figure does reflect reduction of state subsidy to SOEs. However, Haley & Haley explain that in practice, the subsidy is often kept 'off-budget' for political reasons (Haley & Haley, 2013, p. 31). As such, the real figure of subsidies would

[55] See China's Notification on Subsidy to WTO (several years): https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=%40Symbol%3d+g%2fscm%2fn%2f*+and++%40Symbol%3d+chn&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#

arguable be more than the official figure. Despite this, a sector or industry not targeted by the state remains exposed to the rigour of the market.

Although subsidies as a share of GDP have declined, Haley & Haley argue that SOEs still receive considerable subsidies from the government. It was reported that between 1998 and 2004, subsidies to SOEs were equivalent to more than one-third of the total profits of SOEs (Haley & Haley, 2013, p. 31). There were also claims by the US that China had provided unfair subsidies to domestic firms, which impinge on the competitiveness of the market. Under the WTO agreement, two types of subsidies are prohibited, namely export subsidies and import substitution subsidies or local content requirements (Haley & Haley, 2013, p. 30). The US claimed that China had breached its agreement with WTO by providing illegal subsidies to Chinese firms.

As a result, the US had filed a case with the WTO to challenge the awards or grants provided by the Chinese government arguing that the special funds were inconsistent with the Subsidies and Countervailing Measures Agreement. This is because the subsidies were contingent on the basis that wind turbine makers used domestic over imported goods (WTO, 2011)[56]. US had demanded consultation with China over the wind power subsidies and a compromise had been made with China agreeing to eliminate 'discriminatory local contents requirements in wind manufacturing' (China Daily, 2010, December 23).

Likewise, another case was brought by the US to the WTO claiming that China has provided export-contingent subsidies across seven economic sectors, which were maintained and operated by means of over a hundred central and sub-central government measures (United States Trade Representative, 2016a; WTO, 2016b)[57]. The subsidy is reported to be USD 1 billion spanning across three years. It was argued that the sectors affected include textiles, apparel and footwear; advanced

[56] Refer to the summary of the dispute (Dispute Settlement 419): https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds419_e.htm#

[57] See the summary of the dispute on Chinese export subsidies raised by the US (Dispute Settlement 489): https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds489_e.htm

materials and metals; light industry; speciality chemicals; medical products; hardware and building materials; and agriculture. The subsidies include cash grants and discounted or free services for designated firms (United States Trade Representative, 2016a). Similarly, other East Asian economies have used subsidies to promote exports in targeted sectors or industries. The US complaints to the WTO over illegal subsidies have compelled the Chinese government to end prohibited export subsidies (Lynch & Hornby, 2016). Specifically, according to the WTO (2016b), China and the US had signed a memorandum of understanding after rounds of consultations and discussions. In the memorandum, China confirms the removal of the funds and other financial support to the Common Service Platform[58].

What is interesting is that China's export subsidies are 'contingent'. This means that subsidies will only be given to firms that meet particular performance criteria. Such subsidies act similarly to the 'reward' system found in other East Asian economies. Firms which perform well are rewarded and those which fail to perform do not receive the subsidies. I argue that these reciprocity practices in China were very similar to those of South Korea and it was one important reasons for higher-speed economic growth. Therefore, the pervasive role of the Chinese government in the allocation of resources contradicts the liberal tenets upheld by Modernisation Theory. The size of the country and the decentralisation system in China are the challenges for the Chinese state in pursuing a single objective of economic development. Moreover, while there are no explicit rules that require the transfer of foreign technology to Chinese firms, which would contradict the agreements China made with the WTO, it was argued that foreign firms are often 'encouraged' to comply with the requirements of technology transfer as their investments fall under the jurisdiction of local government (Long, 2005, p. 334).

Based on a study of industrial policies in the steel and automotives industry, Chu (2017, p. 315) finds that not every industrial policy adopted by China is successful as

[58] See the Memorandum of Understanding between China and the US (United States Trade Representative, 2016b):
https://ustr.gov/sites/default/files/US-China-MOU-Fin.pdf

success depends on good coordination and cooperation between central and local government. Chu (2017, p. 307) explains the difficulty in the implementation of industrial policy: 'In China, besides vertical coordination problems between the central and local governments, horizontal policy coordination among various agencies is also more difficult, due to the greater degree of complexity involved'. It is generally hard to trace a sole agency that is responsible in formulating and implementing industrial policies as the role of each agency is constantly revised and changing. At times, there was more than one agency involved in formulating industrial policies.

Moreover, a main problem is that central government lacks actual control over local investment. It is up to local governments to decide if it is in their interest to follow the central government's regulations (Chu, 2017, p. 307). Chu further argues that the agencies of the central government find it difficult to collect accurate information as the local government and firms see more incentives in misreporting the data. As such, it is difficult for the central government 'to practice reciprocity to discipline the industry like Amsden (1989) describes' (Chu, 2017, pg. 307). Indeed, decentralisation poses political risks for China, particularly as the weakening of central control may allow local governments to engage in self-interested activities at the expense of the central government's goal.

Montinola, Qian & Weingast (1995, p. 68) believe that decentralisation has increased the extent and scope of the local government in managing the economy, which has put a limit to the discretion of the central government. In particular, local governments can have influence on the credit decisions of regional branches of the central banks set up in provinces and counties. As the reforms proceed, local governments have greater authority in the allocation of credit as well as having the authority to decide which enterprises should receive debt write-offs (Montinola, Qian & Weingast, 1995, p. 67). Therefore, there are times where local governments may resist the directives of the central government when their interests are at odds. According to Hsu, the influence of local forces is one of the spheres that

Development State Theory has overlooked as this theory assumed that all actors are bound to pursue the central state's goals (Hsu, 2018, p. 1100).

Empirical findings indicate that in point of fact, there exists disagreement between the central government and local governments on certain policy issues in China. For instance, Zhang (2011, p. 11) contends that there were competing interests between central government and local governments about small cars. As early as 1996, the central government ordered local governments to lift all restrictions on small cars but many provinces and cities still maintain their restrictions on small cars. It was not until early 2006 that, the National Development and Reform Commission and five other ministries jointly made an enactment to the public, which called on local governments to lift all restrictions on small cars by the end of March that year. Local governments responded by lifting restrictions on small cars, albeit not all were lifted even then. For instance, Beijing municipality has lifted some restrictions on small cars, but maintained certain regulatory measures such as prohibiting smaller cars from driving on the inside lane of Changan Avenue between from 7 am to 8 pm, ostensibly to avoid traffic congestion (Zhang, 2011, p. 12).

The disagreement about small cars can be seen and is argued by Chu as non-compliance by local governments. However, Chung points out that only in certain conditions will local governments try to get around the regulations - when a national policy is deemed unsuitable to local conditions and when the national policy is not being pushed as a priority (Chung, 2016, p. 41). Under such conditions, lower level governments are less likely to be punished for violating national policy. Punishment is more likely to happen when local governments try to evade a national policy that has been prioritised, without any justifiable reason. Apparently, in the case of small cars, the Beijing municipality is believed to have very valid reasons to place some restrictions on small cars. As Beijing is a densely populated area, the central government understands the restriction is essential to ease traffic congestions.

The reason China has adopted decentralisation is because national leaders understand that the vastness of China makes implementing the same policy nationwide less effective. Therefore, most decisions about economic development are delegated to lower level governments so that they can adapt policies to their local conditions. The central-local power relations shaped by China's de facto federalism are well-captured by Zheng (2009, p. 7):

> Within China's existing de facto federal structure, all actors have their own 'field' power as well as power from their independence. While the provinces, with their own resources, can compete for power with the central government, and thus provide dynamics for changes, the central government has been able to absorb whatever changes and reproduce the same structure of central-local relations. Power as resource does imply that the provinces are not that helpless; it also means that the provinces do not have power to change their subordination to the centre. As long as their subordination remains, the provinces are not autonomous in making the type of desirable changes in their territory. Mean while, the interdependency allows the provinces to resist central policies which they regard as undesirable to their own territories.

What can be inferred from Zheng's argument is that local governments can make demands on the central government, but are not always successful. This also implies that the party-state not only practices top-down rule but is increasingly incorporating ideas from below. As Zhan (2009, p. 447) explains, though the central government is often the agenda-setter of the political and financial systems, policy is often enacted through strategic bargaining with local governments. It is also worth noting that decentralisation means delegating economic authority to local governments but not all of the state's authority. As Chung (2016, p. 46) has acknowledged, marketisation and post-Mao reform have indeed weakened the overall scope and extent of the central government in managing the economy, but at the same time, he points out that

any changes to the rules of the game at any time still remain at the discretion of the central government. This means that the central government has the power to keep lower level governments in line with national goals.

Though Montinola, Qian & Weingast (1995, pp. 69) argue that decentralisation has given way to strong regional economic powers, such as Guangdong Province, they also acknowledge that local reversal of the reforms initiated by the central government is still possible, albeit not without difficulty. This again indicates that the central government still has considerable power in the decentralised system. A case in point is the fiscal recentralisation instituted by the central government. In 1994, the central government initiated a tax-sharing system, which allowed the central government to gain more revenue from taxes. In 2002, further actions were taken to ensure that the central government could share enterprise income tax revenue with provincial governments. In 2002, the revenues were evenly divided but the central government has taken 60 percent of the total enterprise income tax revenue collected since 2003 (Chung, 2016, p. 47).

In an IMF report written by a group of authors, it is argued that the tax reform in 1994 meant that local governments have limited ability to set taxes in a formal sense (Ahmad, Li & Richardson, 2000, p. 7). Chou also notes that the tax reform has significantly reduced the share of value-added tax given to local governments – the main share of revenue for local governments – which was reduced from 88.2 percent in 1993 to 26.5 percent in 2005 (Chou, 2009, p. 45). Consequently, the budget deficits of local governments grew from RMB 172.66 billion in 1994 to RMB 1,005.35 billion in 2005 (Chou, 2009, p. 46). In comparison, 'the centre's share in total budgetary revenue rose from 22 percent in 1993 to an annual average of 52 percent during 1994 - 2002' (Chung, 2016, pp. 47-48).

Therefore, despite the risk of competing central-local government interests, decentralisation has arguably helped China to develop the local economy (Zhan, 2009, pp. 445-446). This is because the central government has given leeway to

localities to pursue their own economic objectives (Knight, 2014, p. 1338). There is of course no certainty that the local government will promote national development (Chu, 2017, p. 314). The central government not only faces challenges to ensuring compliance and cooperation from private enterprises, but also from self-interested localities. How does central government ensure the smooth implementation of important national policies across China? Studies such as Chung (2016, p. 48) argues that the power to appoint key personnel and political centralisation remains the important conditions for the party-state to stay in control and introduce effective reforms. The appointment and dismissal of key provincial cadres, including provincial Party secretaries, deputy secretaries, governors, and deputy governors still fall under the jurisdiction of the central government (Zheng, 2009, p. 11; Chung, 2016, p. 48). Additionally, Zheng explains that '[c]ontrol over personnel allocation is the ultimate trump card that centre wields over the provinces' (Zheng, 2009, p. 11).

Zhan (2009, p. 447), on the other hand, suggests that 'the advantageous institutional position of the Chinese central government and its strategic bargaining with the localities' helped to ensure the compliance and cooperation of the localities. Zhan explains that China's constitutionally unitary system means that the central government has the power to set the agenda, but this is often done through rounds of negotiations with localities (Zhan, 2009, p. 458). The negotiation process between central and local governments is designed to gain consent from the latter for the proposed policy as well as to ensure effective policy delivery. Moreover, the central government has introduced vertical management to curb growing localism. In 2007, President Hu Jintao came up with a vertical control strategy to ensure the smooth implementation of policies and regulations (China Daily, 2007, December 21).

According to Knight (2014, p. 1339), each level of government negotiates performance targets with its subordinates, and target responsibility contracts are signed. Thus, performance evaluation relies on the fulfilment of these contracts. There were many criteria used to evaluate performance, but the most common ones were local GDP rates and the level of FDI. The ability of the local government to

achieve a target impinges on officials' promotion to national leadership positions. Knight's argument is supported by Naughton (2017, pp. 10-11) who argues that formal incentives such as cash rewards and increased chance of promotion introduced into government bureaucracies worked well to promote a pro-growth environment.

Naughton explains that it is unusual to introduce such powerful incentives into government bureaucracies as it can cause deviation from other objectives. Therefore, this system is adopted only when there is a single objective, i.e. when economic development becomes the ultimate priority (Naughton, 2017, p. 10). It has been argued that local economic performance became the most important yardstick for career advancement after the Mao era, thus leaving cadres who hope for promotion to strive for economic growth. Chung (2016, p. 49) explains that if the central party-state believes that local compliance with a 'national priority' is of utmost importance, this priority will be used as a key criterion for promotion. This leaves officials with limited options other than to abide by the requirements of the central government, especially if officials are concerned about moving up the government and party hierarchical ladder.

I find that the unique governing system of China, comprised of two parallel hierarchies, a state hierarchy and a party hierarchy (Bell, 2015, p. 116) makes advancing the national objective of economic development much more effective. Since promoting economic development is also the central task for the CPC, the CPC will check to ensure that localities understand and have complied with the national objective. Chung (2016, pp. 51-53) points out that the CPC uses top-level directives, editorials in state-controlled newspapers, and inspection trips to better understand local affairs as well as to relay instructions for important, but often controversial, policy issues. Despite these instruments of control by the party-state, I also recognise that the broad-based policy of the central government often allows local officials to interpret policies in accordance to their local conditions. Officials who foot-drag and deviate from policies which have been prioritised without reasonable justification also receive their fair share of punishment if found guilty.

Howell argues that Party disciplines is weakening, as demonstrated by the chronic corruption, and this has made shaping the course of development more challenging for the central party and state (Howell, 2006, p. 286). Howell (2006, p. 288) argues that the corruption has undermined the positive embedded autonomy of the party-state, but Wedeman explains that corruption is also prevalent in the East Asian economies: 'One of the dirty secrets of high speed growth in the East Asian Tigers is that the developmental states rested on a foundation of corruption' (Wedeman, 2012). This suggests that corruption does not necessarily undermine the capacity and autonomy of the Chinese state, notably the national government, to pursue economic development. As demonstrated in East Asian economies, despite the corruption, East Asian economies have successfully formulated and implemented pro-growth policies. Moreover, China's single-party rule is an institutional advantage that makes it relatively insulated from societal pressure.

Howell also casts doubts on the 'supposedly' meritocratic recruitment system in China because of the close-knit relationship between the party and government. According to Howell, party membership remains an essential consideration for advancement in the government, and government bureaucrats remain bound to the Party leadership (Howell, 2006, p. 286). My observation shows that China has a long history of recruitment of government officials based on meritocracy. Daniel A. Bell, a prominent author of *The China Model: Political Meritocracy and The Limits of Democracy* documents how the meritocracy system began in ancient China. The initial examination system was introduced by Emperor Wu of Han to select competent political officials to serve the emperor (Bell, 2015, p. 81). Although the examination system was abolished at the turn of 20th century, it was revived in the 1990s (Bell, 2015, pp. 83-84). Those who wish to get employment in government have to take a competitive civil service national entrance exam that last for five hours. The first part of the exam consists of 135 multiple choice questions which quiz candidates on a wide range of topics, including mathematics, world affairs, language

and logic. The second part of the exam is a three-hour written essay (The Star, 2017, December 10).

On average, in the 2017 exam, in every position, 48 candidates have to compete against each other. All candidates, between the age of 18 and 35, are required to have at least a junior college degree (Chan, 2017). Moreover, those who wish to apply for a position at government agencies above provincial level would require two years of grassroots experience (Hou, 2017b). Those who succeed in the general exam have to go through further specialised tests and interviews for different departments (Chan, 2017). The vigorous selection for government positions implies that ministries and agencies are staffed with capable civil servants who have a broad vision of the world, and are skilled in logical thinking.

Moreover, although Howell (2006, p. 286) argues that advancement in the government often hinged on party membership, Dumbaugh & Martin have a different opinion. While most senior government officials are members of the CPC, they find that this is not a necessary condition for top level positions in the government. Instead, they argue that advancement in the government hierarchy is based primarily on performance, assessed through the ability to perform tasks and achieve set goals (Dumbaugh & Martin, 2009, p. 9). Merit-based practices in Chinese administration is evidenced as Wan Gang, not a party member of the CPC was appointed as Minister of Science and Technology in 2007 (Ministry of Science and Technology of the People's Republic of China, n.d.). Wan Gang is the first non-member of the communist party appointed as a minister since the reforms, and is a rare instance, but also attests to the fact that advancement in government rank is not necessarily tied to party membership of CPC as argued by Howell.

Therefore, there is little doubt that the selection criteria and system would give rise to capable bureaucrats. Though Chinese meritocracy system is less than perfect, but Dumbaugh & Martin believe it ‘has a record of finding and selecting individuals who rise through the government bureaucracy and emerge as national leader’ (Dumbaugh

& Martin, 2009, p. 9). The meritocracy system also applies to recruitment in Communist Party. Education and experience are two essential considerations for promotion within the party hierarchy and the requirements get more demanding as the position gets higher. Bell documents how typically party leaders would have to start from the bottom of the party hierarchy and it would take at least 20 years to reach to the position of vice-minister (Bell, 2015, p. 186). Although far from perfect, the vigorous process of selection, recruitment and promotion can ensure that a substantial number of party leaders and bureaucrats have capabilities to carry out necessary tasks. Moreover, as China is ruled by the CPC, the Chinese bureaucracy is subject to political influence, but is less influenced by society. As such, bureaucrats are largely autonomous to carry out their tasks.

My analysis confirms that, since reform, the Chinese state has clearly single-mindedly pursued economic development. Despite the decentralisation system that opens up the possibility for local governments to pursue local interests, the Chinese national government has employed various means to ensure that lower-level governments were kept in line with the national goal of economic development. The issue of corruption has not undermined the ability of the state to pursue development, and aided by competent bureaucrats, the Chinese state is capable and largely autonomous to steer the direction of the economy. As such, I confirm that China fits into the first and second claims of Developmental State Theory.

The third claim of Developmental State Theory argues that there is close relationship between state and private businesses as a result of the control the state has over important resources. Therefore, I have to assess whether the Chinese state has control over important resources, and how such control has helped to build a close relationship with private businesses. Similarly to other East Asian economies, Chinese banks are largely controlled by the state.

In China, the five largest banks are majority-owned by the Chinese state, which owns one-half of Chinese banking system assets and deposits (Turner, Tan & Sadeghian, 2012, p. 53). Also, being the majority owner of banks, the Chinese state remains the

sole owner of three policy banks notably China Development Bank, Export and Import Bank of China, and Agricultural Development Bank (Turner, Tan & Sadeghian, 2012, p. 54). Majority ownership allows the central government to appoint senior management in these banks. The concentration of substantial capital in the state's hands allows lending to certain targeted sectors or industries. Government discretion over capital is one of the important elements in the East Asian Development Model. During Park regime, Chang (pp. 137-138) explains how the reliance of private sectors on the investments funds provided by state-run banking sector would influence private initiatives.

According to Osburg (2013, p. 823), China's capital controls and the fixed value of the yuan make the Chinese political economy distinct from the free-market capitalism. The Chinese government strives to keep the yuan relatively stagnant, which in turn helps to keep the wages of workers and production costs at a competitive level. Such measures have ensured that products remain cheap to export. Since 2005, China has delinked the yuan from a fixed exchange rate to the US dollar (Walter & Howie, 2011, p. 18). Despite this, the Chinese currency to-date is still not fully convertible (Yiu, 2016). Capital controls mean that the Chinese state tries to restrict the outflows of foreign capital, an important policy tool to keep the yuan relatively stable. China has put a limit of USD 50,000 a year that a citizen can transfer abroad to prevent massive outflows of funds that could destabilise the financial system (Osburg, 2013, p. 823).

Apparently, the Chinese state has substantial control over important resources such as capital, which has helped to foster a close relationship between the state and private businesses. This mechanism works similarly in Japan, South Korea and Taiwan. Knight (2014, p. 1341) argues that the private sector has been incentivised to heed the directives of Chinese officials in return for advantageous contracts. Similarly, Bardhan sees that the relationship between private businesses and the state in China is characterised by clientelism. The private sector was very willing to provide support to the state and received supervision and guidance in return so that they could get access

to the resources controlled by the state or better collaboration with local governments (Bardhan, 2010, p. 245).

The control of resources is not limited in the hands of the central government. As China adopted a decentralisation system, local governments can approve investment plans and decide on the allocation of credit (Montinola, Qian & Weingast, 1995, p. 67). As such, it would be appealing for local firms to establish good connections with local governments. This is distinctive from the East Asian economies as the power to control important resources often falls into the hands of the central government. Therefore, in the context of China, Developmental State Theory has less to say about the relationship between the central government and local governments. I find that to achieve its economic objectives, the central government has employed various means to ensure the compliance of local governments. The success of the party-state in keeping local officials in line with the national goal of promoting economic development will in turn translate into compliance by private businesses with the national goal.

The report by the WTO Secretariat further highlights the influence the state has on private businesses. Through various measures, the party-state tries to co-opt or at times coerce private businesses to realise state goals (WTO Secretariat, 2016, p. 2). Based on Chinese law, firms, including foreign firms, are required to establish party organisations. It was estimated that party organisations existed in nearly 70 percent of private firms, though the law is often thought to be symbolic rather than effective (Martina, 2017). In recent years, the party-state has pushed to revise the terms of joint ventures between foreign firms and state firms, to allow the party-state to have the ultimate say over investment decisions and business operations. The State Council Information Office (SCIO) reveals that company party organisations help to mediate disputes and keep companies informed of national goal (Martina, 2017).

Based on an assessment of the three assumptions of Developmental State Theory, it was found that China broadly fits into ‘alternative capitalism’ based on a state-led

development model. This theory is unable to explain the interplay between central and local governments, but my observation reveals that the party-state has single-mindedly pursued economic development through industrial policies. Although the decentralisation system has endowed decision-making power to lower level governments, empirical findings suggest that this does not necessarily contradict with the interests of the central government. Rather, the central government has introduced a powerful incentive system that had largely kept local officials in line with the national goal of economic development.

Moreover, single party ruled by the CPC means it has more autonomy to steer the direction of the economy than ruling parties in democracies. Through a vigorous selection, appointment and promotion process, government ministries and agencies are staffed with competent and largely autonomous bureaucrats guided by the CPC. The implementation of industrial policy in China is multi-layered, and this is different from Japan's two-layered model of industrial policy (Chu, 2017, p. 306). The difference is insignificant as it can be attributed by the vast size of China. Therefore, China fits into the three assumptions put forth by Developmental State Theory. In fact, Kennedy agrees that China's experiences have been quite similar to those of developmental states; yet at the same time, he acknowledged that there were differences among them (Kennedy, 2010, p. 471). As such, I affirm once again that China's impressive economic performance can be attributed to a variety of capitalism based on a state-led development model.

7.4 Conclusion

Chapter 6 confirmed the Chinese political economy to be capitalist, and this chapter intended to discover the variety of capitalism, thus the development model China has adopted that gave rise to economic development and exhibited great potential for developmental catch-up. Numerous empirical data were collected to analyse the assumptions of two development theories, Modernisation Theory and Developmental State Theory on this issue.

Modernisation Theory asserts that economic development is attributable to China's adoption of a free-market development model. This variety of capitalism involves a market economy in which a willing and capable national government provides a conducive environment for entrepreneurs to do business. The government puts forward market-friendly economic policies that increase the openness of the market. As China develops, the government is expected to further push for full liberalisation of the economy, including the financial system. From these assumptions, I find that the Chinese state has made numerous efforts to transform China's economy into a market economy. In contrast to the command economy under Mao, China today is indeed much more liberalised. However, it is noted that the government has interfered persistently in the economy to guide trade and investment. The openness of the market is partial as China has restrained foreign investors and to a lesser extent, domestic private investors from investing in certain sectors. Technology transfer and local-content requirements were also utilised by the state to develop local industries.

Therefore, it is argued that government intervention is far more pervasive and the nature of Chinese state interventions have deviated from what Modernisation Theory has purported. Despite Chinese top leadership continual pledge to further reform the economy and increase its openness, analysts find that in recent years the government has tightened its grip on the economy, particularly on capital outflows. Modernisation Theory may have been correct in predicting the outcome of Chinese development. However, this outcome was achieved not by adhering to the strategy of liberalisation that is encouraged by this theory, but rather it was achieved through selective liberalisation. As such, the variety of capitalism China has adopted does not match the free-market development model adopted by the advanced Western nations.

Rather, the analysis has confirmed that China matches the state-led development model of East Asian economies. From the speeches and work reports presented by the Chinese leaders, we can see they have consistently emphasised the goal of economic development. The approach taken to develop the economy is through targeted sector

policies as well as state guidance in the allocation of resources. Some scholars such as Howell argues that the Chinese bureaucracy is subordinated to the party, which makes bureaucratic promotion less meritocratic than in other developmental states, but further analysis shows that the national civil service and its use of assessment based on performance have ensured that only those with skills and knowledge relevant for the position are selected and promoted.

Finally, I also conclude that the Chinese government is able to foster close state and private-sector cooperative relations for the advancement of its national goals. This relationship is shaped through the government's control of important resources such as capital. In order to access resources, the private sector will act in accordance with national objectives. What is different in China is that local governments are granted authority to develop the economy at the local level. As such, there is a possibility that local governments may deviate from national policies when the policies undermine the local elite's interest. As argued above, the power dynamics of central and local governments was one aspect that Developmental State Theory has not been able to offer much insight into. Despite this, the analysis shows that the central government has employed various instruments to ensure cooperation and compliance by local governments. One of the ways is through political bargaining to reach compromise on controversial policies. Also, as a separate entity, the CPC can also monitor the development of localities through its party secretary at each level of government. I argue that the two hierarchies of China – state and party have allowed important central government policies to be implemented more effectively. Hence, the analysis shows that China has followed the East Asian development path, with its own specific dynamics. In particular, the decentralisation and relative autonomy of the local/regional government is a significant aspect of Chinese capitalism that makes it distinctive from other developmental states.

CHAPTER 8

CONCLUSION

8.1 Introduction

After three decades of command economy which produced steady but slow growth, in 1978, Chinese government under the leadership of Deng Xiaoping broke away from Maoist policies and embarked on a road to reform and open up its market to foreign capital. Modernisation Theorists welcomed such moves and they are confident that China can prosper following liberalisation of its economy. This theory believes that by adopting market-friendly policies, including eventually full liberalisation of the economy, developing countries can receive capital and modern technologies from the advanced capitalist countries, which will help them to attain economic development as well as developmental catch-up. On the other hand, the decision to reform and open up its economy to the outside world causes concern for Dependency Theorists. They believe that developed countries and their TNCs will impoverish China by reinforcing its subordination in the global economy. Therefore, the end result could only be underdevelopment in China. Taking a middle position, the Theory of Uneven and Combined Development argues that the decision to integrate into the global economy could sometimes be beneficial for developing countries because of their 'privilege of backwardness'. However, this theory argues that the way China was integrated into global production networks makes China develop in uneven and combined ways. In particular, the Theory of Uneven and Combined Development explains that, within the capitalist world-system, late-developing countries such as China will take the 'combination' form in their developmental paths. In short, this means that development in China is at most partial and fragmented. Therefore, it is not possible to achieve complete developmental catch-up. Using the proposed conceptual framework discussed in Chapter 2, the first key debate on 'Can China catch up?' is subsequently addressed in Chapter 4 and Chapter 5.

In addressing the second key question, 'what is the particular development model of China?', referring specifically to its economic development model, I have engaged with the conceptual framework built in Chapter 3 based on Modernisation Theory and Developmental State Theory. Modernisation theorists represented by Rostow believe the decision to reform and open up the economy means that China has chosen the Western development path - adopting a free-market development model. On the other hand, Developmental State Theorists argue that China has adopted a state-led development model after its reforms. A state-led development model represents the model adopted by successful developmental states, notably Japan, South Korea and Taiwan. The question of which development model China has adopted is assessed in Chapter 6 and Chapter 7 in which the conceptual framework built in Chapter 3 informs the empirical analysis in Chapter 7.

The following section is organised by summing up the findings of the two key research questions. This is followed by a concluding remark for the whole chapter before proceeding to discuss prospects for future research. Overall, the purpose of this thesis is to provide a comprehensive assessment of the Chinese political economy, its potential for catch-up as well as the particular model employed to this end. The theoretical and empirical assessments of the two main key debates conclude that Chinese political economy is state-led modernisation and uneven and combined.

8.2 Developmental Catch-up in China

The question of catch-up is too broad to be addressed in itself and therefore, I first examine if there has been economic development in China. Impressive double-digit GDP growth rates at best reflect economic growth but not economic development. This is because the predominant condition for developmental catch-up is economic development, and not just economic growth. As was discussed in Chapter 4, economic development means rapid economic growth accompanied by an improvement in the productivity and competitiveness of a country. On the one hand,

Dependency Theory believes that the decision to open up the Chinese economy to advanced industrialised countries would lead to its underdevelopment. On the other hand, Modernisation Theory is optimistic that the reform and open up would bring economic development for China.

Dependency Theory has denied the possibility of economic development once China opens up its economy to foreign capital. Instead, Dependency Theory believes that integrating into the world capitalist system would inevitably cause 'underdevelopment' in China because of its subordinate role in the global economy. Additionally, China could become entrenched in a foreign-technology dependency relationship. This is because advanced industrialised countries try to maintain the foreign-technology dependency of developing countries by limiting the transfer of skills associated with the foreign technology imported by developing countries. Furthermore, this theory argues that China will suffer unfavourable terms of trade against advanced industrialised countries in international trade in the long-term. As a result, developing countries have a negative current account balance over time. This means that there would be insufficient capital for expanding the development of indigenous technology, reinforcing the foreign-technology dependence of developing countries in relation to developed countries.

In contrast, Modernisation Theory argues that liberalisation of the economy is going to likely to promote Chinese economic development. This theory argues that by increasing the openness of its economy, China will raise the level of income per capita as well as alleviate poverty. In the early stages of development, Modernisation Theory argues that the national government must first demonstrate concerted efforts to develop social overhead capital, revolutionise its agricultural technology and expand its imports, including capital. These three developments are important to spur take-off in China. In other words, without these three developments, sustainable economic development in China is not possible.

The empirical analysis has rejected the assumption that there is underdevelopment in China as a result of its integration into the global economy. Despite this, there are merits to the other arguments put forth by Dependency Theory. Specifically, Dependency Theory highlights how China, as a developing country, is subordinated in the international division of labour which compels China to produce low value-added products. This means that China is facing unfavourable terms of trade and can only accumulate a small surplus, if any, through exporting the low value-added products she produces. This small surplus could be exhausted as China intends to import foreign technology for industrialisation. As presented in Chapter 4, in the short-term, this assumption holds true. For slightly more than a decade of reform, China ran trade deficits as the value of imports were higher than export earnings. The trade deficits occurred because China had imported many machinery and equipment that was deemed relevant for its industrialisation.

After running trade deficits in the 1980s, China's trade balance remained positive for most years. The large surplus generated from trade has allowed China to maintain substantial foreign reserves. Therefore, while it is true that developing countries are subordinated in the international division of labour after their integration into the global economy, in the Chinese context, the analysis shows that under such conditions, it is still possible for developing countries to achieve economic growth and eventually economic development as discussed in Chapter 4. First, despite the unfavourable terms of trade, China is able to generate large surpluses from 1990 until the present, except for the year 1993. Second, there has been technological upgrading in China as the proportion of local content in exports has increased over the years. This indicates the Chinese ability to produce diversified inputs and subsequently reduced dependency on foreign skills and technology.

Dependency Theory is right to point out the less privileged position of developing countries in the international division of labour and in their trade relations with developed countries, but it has also overlooked the possibility of developing countries making progress under such a structure. However, it is noted that economic

development has been achieved not simply because China has fully liberalised its economy, but rather because the Chinese state has taken on an active role in shaping how China is integrated into the global economy. This was critically engaged in Chapter 7, which I discussed which development model China has adopted.

Therefore, the findings on the first research sub-question, 'Is there economic development in China?' are in line with the predictions of Modernisation Theory. Confirming the arguments of Modernisation Theory, China has achieved economic development following its reforms. In line with Modernisation Theory, China has successfully raised income per capita as well as achieving great success in the eradication of poverty. Most importantly, the findings coincide with the idea of Rostow that a willing and capable national government must lead the transformation of the economy. During the Maoist period, under the leadership of the CPC, China has made committed efforts in developing the economy. In particular, the government's efforts correspond to the call by Modernisation Theorists to develop social overhead capital, revolutionise its agricultural technology and expand its imports, including capital (to a limited extent). However, under Mao, the role of the Chinese state went beyond providing conditions for growth. In fact, during the Mao era, virtually everything was under the command of the state, which contradicts the belief of Modernisation Theory that the state should only interfere to provide a conducive environment for growth to take place.

The command economy allowed some forms of development but did not allow China to 'catch-up' with advanced industrialised countries. Therefore, in the late 1970s, the Chinese government initiated market reforms. Modernisation Theory asserts that a lack of capital is one of the main reasons developing countries fall behind in their development. As China opened up its economy, it boosted inflows of foreign capital. Under the command economy, the Chinese government had imported machinery and equipment mainly from the Soviet Union but to a lesser extent capital for its industrialisation program. After reform, the rapid increase in inflows of capital accompanied by importation of advanced technologies to power new industries along

with other conditions for growth that were developed in the Mao era have allowed China to take off. In Modernisation Theory's context, 'take-off' means irreversible and sustained economic development.

What is interesting is that the solid foundations laid during the command era have arguably helped in expediting the 'take-off' phase of China in the later years. This is because the stable supply of electricity and water as well as the efficient transport network system has also appealed to foreign investors along with China's low labour costs. Moreover, the increased mechanisation of agriculture has greatly improved farm output. Since China was largely an agrarian economy at the turn of its reforms in 1970s, maintaining high productivity in agriculture remains important.

Subsequently, I seek to assess China's position in the global economy by answering the second research sub-question, 'Is there developmental catch-up in China?' This research sub-question is discussed extensively in Chapter 5. On the one hand, Modernisation Theory believes that by following the developmental path of the advanced industrialised countries, developing countries such as China would attain a similar level of development. In this sense, adopting modernity or what are more commonly referred to as market-friendly policies, eventually leading to full liberalisation of economy, would allow China to catch up. Modernisation Theory argues that once China embarked on its 'take-off' stage, growth would be irreversible and China is bound to catch up with advanced industrialised countries. I affirm the assumptions made by Modernisation Theory that the open-door policy has been beneficial for China's economic development and China has the potential to catch up with advanced industrialised countries. First, I find that at the start of reforms, the GPD of China is at a similar level to India. Within the first decade of reform, the GDP of China grew at the similar rate as India and at times, the GDP of China even fell behind India. However, as time passed, the GDP of China grew rapidly, surpassing India. In the early 1990s, there were visible difference between the GDP of China and India and the gap has since grown larger.

Besides outperforming economies that has similar level of development as China at the start of reforms, empirical evidence also shows that China has narrowed the developmental gap with advanced industrialised countries, notably the US. At the start of reforms in 1978, the ratio of income per capita of the US and China stood at a stark contrast of 1 to 68 (in current US dollars). Over the years, the gap in income per capita between the US and China has narrowed to only 1 to 7 by 2015 (World Bank, 2016d). Also, good progress has been made in relation to technology development. The number of patents granted for science and technology to China has spiked in recent years in parallel with the substantial increase in R&D expenditure. In 2015, the total expenditure on R&D increased by 8 percent to RMB 1416.9 billion a year. Since 2014, the spending on R&D is about 2 percent of GDP, a level equivalent to developed countries (National Bureau of Statistics of China, 2016, p. 638). There were also several breakthroughs in science and technology achieved by China. Specifically, China has been leading in nanotechnology, robotics as well as supercomputing.

Despite that, according to Modernisation Theory, China has not progressed to the last stage of the 'Age of High-Mass Consumption', therefore its level of income per capita still falls short from the developed countries. While I argue that the open door policy had inevitably contributed to China's economic development, it should be highlighted that the Chinese economy has never been fully liberalised since its reforms. Though there is increased openness in the economy, the government has always retained a degree of control over the economy. The government does not only interfere with the intention to create a conducive environment for market activities to take place, as the government also takes an active role to promote national champions. This clearly contradicts Modernisation Theory's idea that the role of the government should not go beyond promoting growth conditions.

One criticism that could be directed at Modernisation Theory is its belief that through importation of foreign capital and advanced technologies, China would subsequently be able to achieve technological catch-up with advanced industrialised countries. I

agree that FDI brings about the introduction of new technologies and skill-sets, but it is not sufficient to ensure technological catch-up in China. Instead, in order to preserve their own competitiveness, TNCs inevitably place access restriction on firms in developing countries to core technologies owned by these TNCs. This has proven to be true when US bans the sale of chips to China in the race to produce the fastest supercomputers. Therefore, the ability of China to upgrade its technological capabilities and its potential technological catch-up owed more to several measures taken by the government, which included the promotion of joint-ventures between foreign and local firms, forced technology transfer in exchange for markets, and subsidies which were at times illegal.

By contrast, the Theory of Uneven and Combined Development recognises that each country will develop differently because of its national peculiarities. While Dependency Theory argues that developing countries are subordinated in the international division of labour, putting them in a disadvantaged position, the Theory of Uneven and Combined Development contends that the developing countries have the privilege of backwardness that allow them to adopt and utilise advances made elsewhere to their own advantage. The global restructuring by TNCs has prompted relocation of capital to developing countries for labour-intensive manufacturing production. The Theory of Uneven and Combined Development agrees massive inflows of foreign capital or FDI in China's context has been beneficial for the economy because it brings along advanced productive forces into China. However, this theory also argues that within the world capitalist system, late-developing countries such as China are bound to take 'combination' forms.

As maintained by Davidson (2006a, 2006b), countries that take on 'combination' forms cannot possibly catch up with advanced industrialised countries, but can only develop partially or in a fragmented way. The Theory of Uneven and Combined Development has correctly conceptualised the integration of China into the global economy as bringing about new production forms that when combined with traditional agriculture altered the existing social relations. The combination resulted

in new and unstable social formations. As people from the countryside went to cities to work in the manufacturing sector, they became the object of exploitation by capital. Prolonged exploitation prompted resistance from workers, particularly migrant workers who were often subjected to super-exploitation. There have been protests and strikes which have threatened social and political stability.

Moreover, FDI is unevenly distributed across regions and sectors, exacerbating unevenness. In particular, the Eastern region and manufacturing sector that received most FDI have exhibited a greater level of growth, while the Western region and agricultural sector that received least FDI have the lowest growth rates. Equally important is the fact that China's integration within the global economy has also increased income inequality between urban and rural areas as well as among households within both areas (Lai, 2016). The consumption pattern was also affected by the amount of FDI the regions received. Empirical data suggests that consumption per capita in coastal areas remains highest, followed by the inner region and western region. The regional growth differentials further impacted the minimum wages of the workers in cities. Since minimum wages are based on local living standards, Shanghai which is much more developed has a minimum wage of RMB 2020, while Tibet is RMB 1400 (Yao & Rosettani, 2015).

Modernisation Theory has us believe that unevenness is a temporal phenomenon and a by-product of growth which would diminish as China develops. Furthermore, Modernisation Theory argues that unevenness will be even greater if the government intervenes to allocate resources to certain regions and sectors. In contrast, the Theory and Uneven and Combined Development argues that capitalism is inherently uneven. Therefore, China's integration into the world capitalist economy makes China develop in uneven and combined ways, which is evident in Chinese developmental experiences. In parallel with the argument of the Theory of Uneven and Combined Development, the pattern of unevenness is apparent when I assess GDP growth and productivity levels in different regions and sectors within China. Moreover, the Gini

coefficient of China standing at more than 0.4 has provided a good picture of how unevenly resources are distributed within China across social groups.

Despite the great inequalities within China, there have been major achievements in closing the developmental gap with developed economies. I argue that this is attributable to the partial autonomy the Chinese government has retained over its economy, specifically in the financial sector. Despite this, the Theory of Uneven and Combined Development has not anticipated how the active participation of developing countries in their integration into the world capitalist economy can help to cushion the impact of capitalism. In sum, the Theory of Uneven and Combined Development has well captured the stark unevenness between regions and sectors within China. However, though China has taken the 'combination' form in its capitalist developmental path, instead of a systematic increase in unevenness between its development level and those of advanced industrialised countries, Chinese development shows convergence. On this basis, I argue that China has the potential to catch up, which counters the prediction of the Theory of Uneven and Combined Development, specifically as outlined by Davidson (2006a, 2006b).

While Modernisation Theory argues that greater inequality is the result of government intervention in the allocation of resources to specific regions and sectors, the Chinese experience tells a different tale. During the command economy period, the government was fully responsible for planning and shaping the direction of the economy. However, development in China remains relatively egalitarian. Although at the start of reforms, the establishment of SEZs by the Chinese government as an experiment in market-oriented reforms is said to have influenced the flows of capital to coastal areas, but as many areas across China established SEZs in later years, capital still remained concentrated in the coastal areas. This is because prior to reforms, the coastal provinces and cities were already much more developed with an abundant supply of cheap and skilled labour, ports, and transportation facilities that were attractive for investment in labour-intensive industries. Over the years, the transfer of technology also tended to favour coastal areas, making these areas much

more appealing to other investments such as in high-technology industries. Therefore, the unevenness in the distribution of FDI that causes uneven development between regions and sectors owes more to the nature of capital that tends to flows to areas that would yield maximum returns rather than to government intervention.

Therefore, the argument that government intervention in the allocation of resources to specific regions and sectors has caused greater inequality is certainly not the most useful explanation of chronic inequality in China. In fact, the evaluation of several policies shows that Chinese government tries to tackle the problems of inequality by channelling resources to hinterland regions in China in the hope that foreign capital will follow. These efforts showed some modest results but still fall short of the government's expectations. Despite the government's efforts at narrowing the developmental gap between regions, capital remains concentrated in relatively more developed parts of China – i.e. the eastern region. Therefore, I find that the Theory of Uneven and Combined Development's assertion that China's integration into the world capitalist economy is the cause of greater unevenness between regions and sectors is very much plausible.

Therefore, China is indeed catching up with advanced industrialised countries in terms of GDP, competitiveness, productivity level and technology capability. At present, China has yet to attain similar level of development as the advanced countries, but I maintain that China has great potential for developmental catch-up. However, this is not occurring in the way presupposed by Modernisation Theory. Instead, gradual and selective liberalisation accompanied by the active role of the Chinese state has helped to mitigate the influence transnational capital has on the way China develops. Additionally, one distinctive feature of foreign investment in China is that much capital comes from Hong Kong, which is part of China, but continues to be counted as a source of foreign capital. This unique combination as well as the development model China has adopted have arguably made developmental catch-up possible.

8.3 China Development Model

There has been a debate over 'Is China capitalist?' which remains inconclusive mainly due to China's strong official position that maintains that China is socialist, but with Chinese characteristics. The debate has been addressed from a political economy perspective. In examining this research sub-question, the concept of 'Socialism with Chinese Characteristics' has been examined thoroughly in Chapter 6. Equally important is the assessment of a wide range of literature that contends China is capitalist as well as a smaller number of scholars who counter this claim. The determination to reform and open up the market of China had once caused concern for the 'leftist' within the party. They feared that by embracing the market economy, China would inevitably pursue a capitalist road.

However, Deng reiterated countless times in his speeches to the members of the party as well as to the public that the existence of a market economy would not change the structure of socialism nor would it bring China back to the capitalist road (Deng, 1979, November 26). Deng believed that China could use capitalist methods in liberating and developing productive forces, but this can be done with no exploitation nor polarisation, so as to achieve common prosperity for all. Deng argued that this is the essence of socialism (Deng, 1992, January 18- February 21). Articles produced by state-backed institutions also echo the official line. Wang Weiguang, then Vice President of CASS contended that maintaining the dominant position of public ownership is the basic principle of socialism. He added that the Chinese state would strengthen its regulatory role in macroeconomic matters. Therefore, if public ownership remains dominant, China remains socialist.

My observation shows that in practice, China is not socialist as claimed by the Chinese government. First, the findings show that state ownership of industrial assets is indeed substantial, but the state's share of revenues and employment are not as dominant. Additionally, the introduction of mixed-ownership reforms in SOEs allowed private businesses to hold shares in sectors which were off-limits in the past.

This development sees the potential rising influence private capital may have on the operationalisation of SOEs, which will further undermine the dominance of public ownership. Second, though Deng (1992, January 18- February 21) strongly believed that the development of a 'socialist market economy' would benefit the society as a whole, in reality the Chinese political system that allows concentration of power in the hands of elite led to widespread corruption following the reforms.

Therefore, the embrace of a market economy allows the self-enrichment of certain groups, and does not result in common prosperity for all. Development with equity is important as it makes up one of the basic principles of socialism. It is, however, an uncontested fact that inequalities remain a grave concern in China and could be potentially disruptive for the society. Moreover, there is ample evidence of violation of labour rights within China. Since there is no political will from the trade unions to defend the rights of the workers, private businesses are unlikely to be held accountable for the violation of workers' rights. This is far from the ideal state imagined by Deng who believed that the development of productive forces could be done using capitalist methods minus exploitation and polarisation. By critically examining the principles of 'Socialism with Chinese Characteristics' adopted by Chinese officials and reinforced by state-backed institutions, I find that China does not fit the description of a socialist state by its own standard.

Arrighi (2007) and Samir Amin (2013) also argue that China is non-capitalist. The rationale for Arrighi is that, while many elements of capitalism are found in the economy, as long as the state is not subordinated to the class interest of capital, then China is not capitalist (Arrighi, 2007, pp. 331-332). This understanding that treats 'market' and 'state' as independent ignores the insight that 'both the ''political'' and the ''economic'' are simply differentiated forms of the same underlying social relations of production' (Bieler & Morton, 2018, p. 194). The relationship between capital and the Chinese state is quite complex. Decentralisation has driven capitalist competition, in which capitalists try to establish good relations with local governments in pursuit of benefits. Moreover, the influence of private capital on the

decision-making process in the country expanded when former President Jiang extended Party membership to private business owners. On this basis, the transition threatens the principles of 'socialist market economy'.

Moreover, it is because of the control the state has over the banking industry that the Chinese government can channel funds accumulated from the savings of Chinese workers to the Chinese corporate sector. SOEs and big enterprises with political connections to the CCP were beneficiaries of a regressive redistribution of wealth from the lower to the upper class. What could be inferred from this is that the state has taken an active role in the reproduction of the social relations specific to capitalism. On the other hand, Samir Amin (2013) argues that China is non-capitalist on the basis that land has never been turned into a commodity since the founding of PRC. However, my findings show that land is increasingly becoming tradable under the disguise of leasing land user rights.

Local governments, especially in big cities, often 'lease' land to big private companies for development, in return for material gains, which Huang (2008, p. 236) terms crony capitalism. Land grabbing practices, sometimes illegal, are not an uncommon scene a few decades into reforms. In addition, the automatic renewal of residential land user rights suggests that the government increasingly recognises private property ownership. Following the market reforms, the state has also withdrawn its role as the main social service provider. Hence, the social relations of production in China are clearly capitalist and not socialist. In addition, the state has taken an active role in creating more favourable conditions for continued accumulation of capital through the exploitation of workers.

In sum, my analysis shows that China is far from a socialist state in practice. Development without equity and highly exploited workers are hallmarks of Chinese reforms. Inequality has become a great concern and the fear of political instability had prompted the government to come up with several policies to address the issue. Despite these efforts, the Gini coefficient of China still exceeds 0.4, a level indicating

potential social unrest. As detailed by Lai (2016), due to the widespread discontent of the people towards chronic income inequality and unjust treatment by local cadres, Hu-Wen administration had introduced a range of welfare programmes to ease people's resentment. In recent years, President Xi has worked to improve the social welfare system, but it is still far from what a socialist state would normally provide for its people. Most importantly, labour rights continued to be undermined under President Xi. The social relations of productions within China have fundamentally changed following the reforms. I find that the Chinese political economy is capitalist as it is organised around wage labour and continued violation of workers' rights. Additionally, local governments have often engaged in rent-seeking activities at the expense of workers. Though this has begun to change with the crackdown on corrupt officials, but the system of exploitation of labour remains intact.

Following the conclusion that the Chinese political economy is capitalist, I was also interested to uncover what variety of capitalism China has adopted that gives rise to such spectacular growth, with potential for catch-up. Modernisation Theory argues that China has embraced a variety of capitalism based on a free-market development model. This effort is led by a willing and capable national government which believes that the free-market development model is the best approach for China to develop and catch up with industrialised advanced countries. As such, the government is expected to continue to push for complete liberalisation of the economy, including its financial sector.

On the other hand, Developmental State Theory argues that China has adopted a variety of capitalism based on a state-led development model. This theory argues that the main objective of the state is economic development which the government will pursue through sectoral industrial policies. Also, the meritocratic system allows the recruitment of capable bureaucrats who are largely autonomous to formulate and implement policies that are pro-development. Moreover, government control over important resources has fostered close state and private business relationships. These relationships allow two-way exchanges of information and are particularly useful to

inform the private sector of the national goals so that the latter is always in line with these goals.

The analysis shows that the Chinese leadership is very committed to reform and opening of the market. The once closed economy has become much more open following the reforms. As a result, China has experienced a booming economy. First, China experimented with SEZs which provided many privileges, including reduced tax rates for foreign firms. China has also reduced trade tariffs, and this has helped with the expansion in imports. The government efforts aimed at liberalising the economy in the late 1970s seemed in line with the free-market development model purported by Modernisation Theory.

A detailed examination, however, shows that the government does not fully promote liberalisation of the economy. In fact, evidence shows that the government interferes heavily in guiding the allocation of resources to sectors that they regard as strategic. This is often done through sectoral industrial policies that boost investment. Besides, foreign investors are always guided by the investment catalogue, which is revised periodically in accordance with China's national interest. Despite China's emphasis on respecting WTO rules and regulations, the catalogue has barred foreign investors from investing in some sectors. Specifically, US firms faced market access barriers in China's financial sector (US - China Economic and Security Review Commission, 2017, p. 6).

In order to avert foreign competition with Chinese firms in local markets, the Chinese government has encouraged foreign-invested companies to export more than 70 percent of their products. Measures to encourage export include the absence of a levy of taxes or tariffs on inputs used in processing goods for export. Foreign-invested firms that have achieved the export quota determined by the Chinese government are also entitled to a 50 percent reduction in corporate income tax (Long, 2005, p. 322). Additionally, the government has implemented the 'Go West' Policy, which aims to guide FDI into the western region though the results fall short of government's

expectations. The Chinese government also constantly employed a 'swap market for technology' tactic to ensure that foreign advanced technologies are transferred to Chinese firms.

Despite the intervention of the state in certain spheres of the economy, the rest of the economy still operates according to the logic of the market. However, the restrictions in place mean that China does not qualify as a free-market economy. In terms of openness towards FDI, an OECD working paper finds that China was more open to foreign investments in 2006 compared to 2010 (Davies, 2013, p. 33). This suggests that China has slightly rolled back its reforms. In recent years, Xi has pledged to allow market forces a greater role in the allocation of resources. However, the state continues to exert significant control over the economy, particularly through its macroeconomic policies. For example, the government still employs capital controls. In fact, President Xi has tightened capital controls to maintain the level of foreign reserves. This means that foreign acquisitions now need state approval. As such, China does not adopt a free-market development model, a variety of capitalism that upholds free-market principles.

The analysis in Chapter 7 confirms that the Chinese state's strong role in guiding the economy echoes the government guidance of the market in the East Asian Development Model (or State-led Development Model). However, the decentralisation and relative autonomy of the local/regional government is a significant aspect of Chinese capitalism that distinguished it from other forms of state-led development. The post-Maoist Chinese leadership has always maintained that economic development is the central task of the government. A similar message was conveyed not only to bureaucrats but also CPC party members. Therefore, it is the central task of both the government and the party to prioritise economic development above all other goals. Though the decentralisation system in China gives each local government leeway to pursue its own objectives rather than national objectives, authors such as Knight acknowledge that result-based promotion is a powerful incentive for local officials to promote the central government's growth

objectives (Knight, 2014, pp. 1339-1340). Also, local government interests and the central government's pro-growth interest are not necessarily at odds with one another.

Similar to other developmental states, China's NDRC is tasked with designing industrial policies to achieve economic development. In the Five-Year Plan, the central government sets binding targets to be achieved during each five-year period. In turn, local governments make plans to achieve the targets. The industrial policy specifies sectors or industries that are given utmost importance by the state. Although Naughton notes that industrial policies are less clearly targeted in China, he argues that the common goal of Chinese industrial policies is to promote investment (Naughton, 2016, p. 107). The recent focus of industrial policy is the development of high-tech sectors. The industrial policy, 'Made in China 2025' aims to encourage local firms, regardless of ownership, to develop several key technologies such as supercomputers and industrial robots, in which China could have a competitive edge. Among the ways to ensure the success of industrial policy is through subsidising the targeted sectors. Various subsidy programs are created at all levels of governments. The subsidy also includes keeping energy prices low. Moreover, China is also found to have engaged in unfair practices that have breached the rules and agreements of the WTO. For instance, the Chinese government is alleged to have provided millions in grants to wind turbine manufacturers that use only local-made parts and components. As discussed in Chapter 7, after rounds of consultations and negotiations with the US over the prohibited subsidies to wind turbine makers, China had agreed to terminate this form of subsidy.

The Chinese government also intends to promote exports in certain sectors, a strategy similar to the one adopted by classical developmental states. For example, the government channels credit to industries that exhibit positive growth and export potential (Gray, 2011, p. 578). In China, the government chooses to provide export-contingent subsidies to potential sectors. The sectors include but are not limited to agriculture, clothing, and pharmaceutical products. Export-contingent subsidies are similar to the 'performance-based reward' system of East Asian economies. Apart

from these targeted sectors and industries, the rest of the economy is exposed to the rigour of the market. This is one of the key characteristics of developmental state model.

There are concerns that the decentralisation system in China makes it difficult for the central government 'to practice reciprocity to discipline the industry like Amsden (1989) describes' (Chu, 2017, pg. 307). This is because the autonomy accorded to the local government would at times make pursuing the central state's goals less straightforward, particularly if there is a conflict of interest between central and local governments. The influence of local forces in the pursuit of national goals has been overlooked by Developmental State Theory because it assumes that all actors would certainly work in accordance to the interests of the central government. In contrast, in the context of China, disciplining of industry at the local level often has to rely on local governments. In China, central and local governments disagree on certain policy issues, for instance on the restrictions placed on small cars.

However, my findings show that there are strategies the central government has utilised to introduce effective reforms. First, the central government often engages in strategic bargaining with local governments to ensure the acceptance of a proposed policy and subsequently its implementation. Second, the ability of the central government to appoint and dismiss key provincial leaders may encourage their alignment with the national interest. Third, the promotion of local level officials based on fulfilment of the target responsibility contract may induce cooperation from local governments. Following reforms, local economic performance became the most important yardstick for an official's career advancement. As such, officials looking for promotion will usually push for economic development, in line central government policy. Moreover, the unique governing system used in China which comprised of parallel state and party hierarchies means that the national objective of pursuing economic development is simultaneously advanced by both the state and party institutions. All of these structures help to keep local governments in line with the national goal of pursuing economic development.

The analysis also confirms the second claim of Developmental State Theory that the Chinese government bureaucracies, similar to East Asian economies, are staffed with capable and autonomous officials selected through a meritocratic system. Howell expresses concerns that promotion in the government is influenced by party membership and that chronic corruption may have undermined the relative autonomy of the party-state, and thus the bureaucracy (Howell, 2006, p. 286). In fact, the current civil national entrance exam is very competitive as the candidates are tested on a wide range of topics, including mathematics, world affairs, language and logical thinking, as well as specialised tests and interviews of different departments. As in classical developmental states, there is a super-agency, NDRC, in China which has competent bureaucrats/technocrats to carry out a wide range of responsibilities including formulating policies for strategic industries and approving investments.

There is also concern that advancement of bureaucrats in the government hierarchy is associated with CPC party membership (Howell, 2006, p. 286). However, my observation of China reveals that there was a non-CPC member elected to a top government position, namely the Minister of Science and Technology. This suggests that despite the importance of party membership, the ability to perform could allow officials to take up high-level government positions even if they do not belong to the CPC. Additionally, promotion within the party hierarchy is based on cadres' education and experience. Typically, party leaders would need to serve at the grassroots level for years before they could be promoted to a higher rank within the party. This further confirms that recruitment in China is likely to produce capable bureaucrats.

Developmental State Theory maintains that the autonomy acquired by bureaucrats, insulated from social pressures, allow them to single-mindedly push for economic development. However, Howell (2006, p. 288) argues that the autonomy of the party-state could be undermined by the pervasive corruption in China. Howell believes that pervasive corruption may influence political decisions and undermine economic

development. However, in other successful East Asian economies, corruption was rampant alongside high-speed growth (Wedeman, 2012). As such, corruption may not necessarily undermine the autonomy of the state to formulate and implement pro-growth policies. Moreover, under one-party rule in China, the party-state, thus government bureaucrats, have great autonomy to formulate and implement policies to achieve the goal of economic development.

My findings also confirm the last assumption of Developmental State Theory which expects the Chinese government to be able to foster a close relationship with the private sector because of the control it has on important resources. The government still owns many banks in China, which holds many assets and deposits. Access to credit is important for the expansion of firms and the control the state has over credit allows it to nudge businesses into advancing national goals. In particular, the central government owns three policy banks: China Development Bank, Import and Export Bank of China, and Agricultural Development Bank, which are used to fund firms that act in line with national goals. Government control over credit is one characteristic that is shared by East Asian economies. Close state and private business relationships are unique in East Asian economies as one of the important ways to get national policies effectively communicated across the country. Additionally, this close relationship allows the Chinese government to receive important information from the private sector so as to formulate better policies. Therefore, the close relationship between the state and private businesses does not mean that the state will wield all its power over businesses to force them to conform to national goals, but rather, it enables two-way information exchange that can be mutually beneficial.

In addition, the private sector is willing to act in accordance with the wishes of officials in exchange for contracts or to access resources controlled by the state. This works the same at the regional level, as the local government also has control over important assets. Moreover, the policy of setting up party organisations in firms, including foreign firms, has allowed the party-state to inform and advise firms about the developmental direction of the country. Due to the size of China, a multi-layered

governance framework was introduced which differentiates China from the classical developmental states. As such, Developmental State Theory does not illustrate how central-local relations would play out in the pursuit of a single objective of economic development in China. Despite this key difference, one can conclude that China does fit broadly into the variety of capitalism espoused by Developmental State Theory, which emphasises a strong state role in governing and shaping the economy.

Developmental state theorists often highlight the role played by the private sector in driving rapid growth in East Asian economies, often downplaying the role of SOEs. However, the economic history of developmental states shows that SOEs have been a part of the economy in all cases, and are mostly in control of strategic sectors such as transport, energy and communications at the heights of the economy. This has been the case during rapid growth in Japan, South Korea and Taiwan where strategic sectors such as heavy industry were often run by SOEs. Particularly, banks were mostly state-owned in East Asian economies during the period of their rapid growth. The difference between these East Asian economies and China is that the size and number of SOEs in the latter is much larger, mainly because of the sheer size of its economy. Despite this difference, China fits broadly into the 'alternative capitalism' or state-led development model.

8.4 Conclusion

My analysis confirms that the influx of investment has been favourable to Chinese economic development and has also aided China's catch-up. It should be reiterated that China has progressed well in catching up with the advanced industrialised countries, but at the time of writing, China has not attained the same level of development as these countries. Specifically, China has been extraordinarily successful in eradication of poverty. The international convergence of income has also progressed very well, as has the narrowing of the technological gap and the productivity gap. There are, however, problems of inequality within China that need to be addressed by the government so that economic development would be more

inclusive. Based on empirical findings, I argue that China has the potential to fully catch up with advanced industrialised countries. While its GDP per capita remains below advanced industrialised countries, China has already entered and even leads some of the high-tech fields such as robotics and supercomputers. This is owed to the control of the Chinese state of important resources that allow her to mobilise and channel resources (capital) quickly in the development of the country. China would be considered to catch up economically if she qualifies as a high-income country by international standards. In terms of technological and productivity catch-up, China is required to have cutting-edge technologies in one or more sectors, making China a world tech leader. Analysis confirms that the development progress achieved by China owed less to the free-market principles than to a strong state role in leading and shaping the economy. Specifically, I find that China's Development Model echoes the East Asian Development Model which emphasises the pursuit of economic development using industrial policies. The autonomous bureaucrats/technocrats recruited through meritocracy are tasked with the responsibility of formulating and implementing sectoral industrial policies. Most importantly, state control over important resources such as credit helps to foster a close state and private business relationship that ensures the two-way exchanges of information to better formulate pro-growth policies. The hard infrastructure that was developed prior reform and expanded after reform was also a necessary condition that accelerated China's developmental progress. Therefore, theoretical and empirical assessments of two key debates have concluded that Chinese political economy is state-led modernisation and uneven and combined. Despite my optimism about China's developmental catch-up, I acknowledge that the successful achievement of the outcome is not definite. Specifically, there are challenges that could impede Chinese developmental catch-up, which I discuss in the next section.

8.5 Prospects for Future Research

My findings using the established conceptual framework laid out in Chapter 2 and 3 confirms that China has made remarkable progress since its reform and opening-up in the late 1970s. Since reform, China has transformed from a low-income to an upper

middle-income country, with very impressive results in poverty eradication and the emergence of a prosperous middle class. Although the GDP per capita and technological prowess of China still fall behind the advanced industrialised countries, notably the US, China has been able to close the gap, quite remarkably, within just four decades. These achievements meant that 'China has grown faster and longer than any other economy in history' (Naughton, 2016, p. 104). This convergence in economy and technology with advanced industrialised economies demonstrated by China, makes it likely to achieve developmental catch-up in the future. This is not to say that developmental catch-up in China is assured and definite, as China would also face potential obstacles that may inhibit its catch-up. Specifically, I identify four potential obstacles, which could in turn become topics for further research. They are: 1) unsustainable environmental pollution; 2) shortage of labour; 3) competition by countries with even lower labour costs; and 4) political instability as a result of deepening inequality.

In the past, China has pursued 'growth at all costs' which has profound implications for the environment. The negative impacts on the environment include air, water and soil pollution. These gave rise to 'cancer villages' in China where many residents have died of cancers because of the pollution (Kaiman, 2014). Moreover, contaminated soil has led to concerns about food safety. What has been daunting is that China's total arable land has shrunken for four consecutive years (Stanway, 2018). Despite the soil being unfit for agricultural purposes, farming continues and rice tainted with heavy metals was found to be sold on the market (Zheng, 2013). As a result, China is faced with unsustainable environmental pollution that could pose a challenge to its agricultural activities.

The second potential obstacle for China is its ageing population. With the largest population in the world, China is now faced with a shrinking labour force. The shortage of labour and workers' demands for higher wages have pushed China out of its niche in terms of comparative advantage. Therefore, China can no longer rely on its abundant and cheap labour to stimulate further growth (Hardy, 2017, pp. 197-198).

Subsequently, China is faced with competition by countries with even lower labour costs, such as Vietnam. Evidence suggests that labour-intensive productions have begun to shift to Vietnam as a result of rising costs in China (Yang, 2016). It is important then for China to either maintain its comparative advantages by suppressing the wages of workers or to expedite on the transformation and upgrading of the manufacturing industry to remain competitive in the global economy. Moreover, there is growing dissatisfaction over the unequal distribution of wealth, manifested in the form of protests and strikes across the country, which affects the political legitimacy of the CPC. As all these potential obstacles could impede China's developmental catch-up, further research in these areas is needed so as to provide insightful policy recommendations for China's future development.

As the current process of development unfolds, the current trade war between the US and China is one of the unforeseen events that could negatively impact China and its development. Therefore, the ability to catch-up fully in the future depends very much on the discretion of the Chinese state to handle a constantly changing internal and external environment. This thesis would be more informative if the scope of the study could extend to include providing lessons for developing countries. However, the objective of the study has been narrowed to explore and examine the contentious debate about Chinese development: does the high GDP figure mean China is catching up or has even caught up with developed countries? And what is the particular development model of China? With that in mind, I hope that the findings of this research are useful for scholars in their future studies about development of other emerging economies. It would be particularly interesting to see whether China's development trajectories would be useful for other emerging economies. Moreover, as China develops, its economy is shifting from high-speed growth to quality growth and that prompts us to question if China would continue to maintain its East Asian Model.

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APPENDIX

***Chronology of Major Reforms

1978	Deng Xiaoping initiated the policy of 'Reforms and Opening-up'.
1979	Household Responsibility System was introduced to replace collectivisation of agriculture.
1979-1980	The first Special Economic Zones (Shenzhen, Zhuhai, Shantou, Xiamen) were established to attract foreign investment.
1984	At the third plenum of the Twelfth Central Committee of CPC, CPC adopted 'China's Economic Structure Reform'.
	China's top legislature further opened 14 coastal cities to foreign investment.
1985	China established dual-track price system.
1988	Chinese government issued Provisional Regulations for Private Enterprises.
1990	Shanghai and Shenzhen Stock Exchanges opened.
1992	Deng's Southern Tour commits to further opening up the economy to foreign investors.
1993	The 14th Congress of the Chinese Communist Party officially endorsed China as 'socialist market economy'.
1995	State council introduced pilot program to restructure SOEs (Grasping the large, letting go of the small).
1996	Yuan is convertible on current account to facilitate trade.
1997 - 1998	Premier Zhu Rongji initiated a large-scale privatization of SOEs.
2001	China's entry to the WTO marked the success of negotiation led by Premier Zhu Rongji.

2005	Under Hu-Wen administration, China ends its peg to the US dollar.
2007	China established Offshore RMB Bond Market under Hu-Wen administration.
2013	Under Xi-Li administration, Chinese government launched China (Shanghai) Pilot Free Trade Zone.
2014 - 2015	Introduction of mixed ownership reform program that welcomes private investment and management into SOEs.
2016	RMB becomes one of IMF reserve currencies.

* Please note that only major reforms/events related to China's transition into a market economy are included. This list is not meant to be an all-encompassing description of China's reforms.