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# **The Dual Developmental State**

Development Strategy and Institutional  
Arrangements for China's Transition

**Ming Xia**





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Development strategy and institutional arrangements  
for China's transition

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*The City Univeristy of New York*

*The College of Staten Island*

 **Routledge**  
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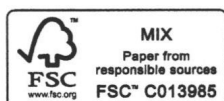
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THE DUAL DEVELOPMENTAL STATE

*To Benedict Stavis*  
*Mentor and Friend*



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M.X.

Staten Island, New York

# List of Abbreviations

CDS	Capitalist Developmental State
CPC	Communist Party of China
CPPCC	Chinese People's Political Consultative Conference
MITI	Ministry of International Trade and Industry
NIE	Newly Industrialized Economy
NPC	National People's Congress
NPCSC	National People's Congress Standing Committee
PBC	People's Bank of China
PC	People's Congress
PD	Renmin Ribao Haiwai Ban [People's Daily, Overseas Edition]
PPC	Provincial People's Congress
PPCSC	Provincial People's Congress Standing Committee
PRC	People's Republic of China
RMRB	Renmin Ribao Guonei Ban [People's Daily, National Edition]
SC	Standing Committee
SDPC	State Development Planning Commission
SEZ	Special Economic Zone
TVE	township and village enterprise
WTO	World Trade Organization

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# 1 Introduction

## **The Puzzles to be Explored**

The developmental state model originated in Japan and later spread to other East Asian countries. Over the past decade it has ascended to the status of the leading paradigm for the study of the East Asian political economies (Johnson 1982, 1995; Deyo 1987; White and Wade 1988; Amsden 1989; Haggard 1990; Wade 1990; Fallows 1994; Evans 1995; Simone and Feraru 1995; Chan, et al, 1998; Woo-Cumings, 1999). After the summer of 1997, a financial crisis swept over this region and severely challenged the developmental state model (Krugman 1994; Lingle 1997; Sanger 1997; Kim 1998). Despite this fact, it is very unlikely that scholars will abandon this paradigm for explaining the miraculous economic take-off in this region over the past four decades. Moreover, many of the well-known Asian specialists have suggested that this model has been emulated in China. Thus, the largest Asian country has become part of the “flying-geese” pattern of development led by Japan, followed by the “Four Little Dragons” and the other East Asian countries (Perkins 1986; White and Wade 1988; White 1991; Overholt 1993; Simone and Feraru 1995; Cheng 1998; Gilley 1998). The words of the Chinese leaders, those specially of Deng Xiaoping, as well as the policies recently implemented have further confirmed this view. Given this development, it is disappointing that no case study on China has been conducted within the context of the developmental state theory. Meanwhile, the institutional arrangements for development in other East Asian countries have been examined in relative detail. This study is designed to fill this academic lacuna.

With regard to the East Asian developmental state, China has shared several important similarities with Japan and other East Asian Newly Industrialized Economies (NIEs include South Korea, Taiwan, Singapore and Hong Kong and are often referred as “Four Little Dragons”). For example, China has a Confucian culture, a very high savings’ rate, and a miraculous economic growth rate driven largely by exports. Like these



countries in their early stages of modernization, China has followed the same one-party authoritarian system to guide its economic development. But these similarities do not conceal two qualities that distinguish China from the other East Asian NIEs. First, China's territory is more than eighteen times larger, and its population is almost six times greater than the "Four Little Dragons" and Japan combined. Understandably, the Chinese are pursuing the goal of modernization under much stressful conditions due to their environment. Second, its economic and political transitions are being carried out under the leadership of the Communist Party of China (CPC) and thus are proceeding within the context of a different set of ideological background conditions. The socialist political and economic legacies (e.g., egalitarianism, Stalinist bureaucracy, and a centrally-planned economy) have imposed tremendous constraints upon this transitional process.

The logic of the situation raises the following questions: Considering its vastness and its Communist economic and political background, how has it been possible for China to emulate the developmental state model which is capitalist in nature and has originated primarily in relatively small countries? If, as most scholars believe, China is following the developmental state model, I suspect the adoption of this model must have been assisted by major institutional adaptations within the Chinese state and economy. What then, if any, are these adaptations? How have these newly adapted institutions been constructed to support the developmental state model in China? Within what kind of environment and following what kind of strategy has such institution building become possible? Once established, what has been the impact of these institutions upon the Chinese political economy?

According to the classic developmental state model, what is crucial to a developmental state is state capacity, which is defined as the ability of a government in getting its job done and includes its capacity to mobilize society, to extract resources, to steer development and to legitimate the regime (Wang and Hu 1993, 235). From the political perspective, the secret of the model's success for maintaining state capacity relies mainly on two important institutional arrangements: the suppression of local autonomy and the negligible role of legislatures. These institutional arrangements set the stage for administrative guidance from a competent bureaucracy of the central government. However, in China, Deng Xiaoping started his reforms with decentralization and legislative development. In the twenty-year course of reform, the local governments were given

regional property and autonomy, and the legislatures both at central and local levels were encouraged to expand their institutions and powers. Obviously, at the level of institutional arrangements, China has deviated in two important respects from the other East Asian developmental states. The issue is then: to what extent do these two institutional deviations disqualify China as an emulator of the developmental state model? Is there any connection between the different ecological conditions and unique political legacy of China and these two institutional deviations? In other words, when China adopted the developmental state model did it not have to adapt it to its unique heritage?

To provide explanations for the discrepancy between the Chinese practice and the original model, I will propose in this book a "dual developmental state model." By "dual developmental state," I mean that the Chinese developmental state is defined and sustained by both the legislative and local political institutions. There is a dual structure from the central to local levels, between the governments and the People's Congresses (PCs). The system of PCs has developed to become an indispensable part of the Chinese ruling machine by legitimating the government, integrating the nation, and by making a huge number of laws for governing and for market creation, as well as for the supervision of the government and judicial branch. Furthermore, this "dual developmental state" also has a two-tiered structure in which the developmental role of the central state is nested within the context of the central/local synergism. Reform-minded central leaders, for a long time led by Deng Xiaoping, have encouraged local leaders to explore new policies and experiment with ideas in order to generate experiences and learn lessons. But since local leaders have come to need a mandate from the center, the central state and local states have formed an interdependent relationship. The mutual needs of both levels of the governments have helped to establish and maintain an equilibrium over the past two decades, despite the oscillating nature of the central and local power relationship. As a result, the dynamics of China's developmentalism cannot be solely attributed either to the central or the local governments. It has arisen out of their interaction, which in turn has mutually strengthened their developmental orientation.

If the Chinese developmental strategy is included in the family of developmental states, then the existing theoretical model needs to be stretched to accommodate the Chinese deviations. This creates several

problems. First, has the integrity of the classic developmental state model been destroyed? Second, is it too far-fetched to apply the developmental state model to China, given the institutional deviations that exist in the Chinese developmental state? Third, if the Chinese developmental state has been characterized by a power-sharing mechanism among the central state, local states, and various legislatures, how can it maintain its coherence and efficiency?

To solve these problems, I have tried to restructure the classic developmental state model by introducing a new concept: the mode of governance. According to Oliver Williamson (1975, 1996), economic and social transactions (or exchanges, interactions) are basically organized into three types of institutional matrices, or three modes of governance: market, hierarchy, and hybrid. Most scholars agree that the developmental state approach is neither a market, nor a hierarchy, but is, instead, a hybrid. To be exact, this hybrid mode of governance in the East Asian countries is a network.

Several scholars have pointed out that one important limitation of the developmental state model, namely the assumption of an insulated and autonomous state, lies in its failure to incorporate the network analysis into its theorization. By following this line of reasoning, they have "introduced a network approach as an extended modification of the developmental state paradigm" (Chan, et al, 1997, 10). Peter Evans (1995) introduces the concept of "embedded autonomy" to help us understand the linkages, connectedness, and ties between the states and societies, political elites and industrialist elites, and the connection between the capital and bureaucracy through a hegemonic ruling party in the East Asian developmental states. Manuel Castells (1996), one of the most important thinkers within the developmental state paradigm, obviously sees that the developmental states in East Asia have been evolved in the context of the connection culture, business networks and network society there. He also has confidence in that the combination of cultural and traditional values with modern information technology in Asia helps it enjoy a comparative advantage over other regions in the new information age (Castells 1996, 173).

The network approach enables me to transcend the existing construct of the developmental state and move to a higher level of abstraction and generalization to assess it. Thus, in light of the network approach, all East Asian countries have shared one common institutional feature. This is networks and networking. In their political, economic, and social life,

complex networks among individuals (e.g., connections), families, businesses (e.g., *keiretsu*, *chaebol*, crony capitalism, and business groups), and politicians (e.g., the patron-client relationship) are easy to identify. Based on the institutional nature of networks, the Chinese institutional arrangements that promote its development do have an affinity with and share the homogeneity of the East Asian developmental states. Moreover, how the Chinese state has maintained its institutional coherence and state capacity for steering the economic transition can be explained. Specifically, the National People's Congress (NPC), the Provincial People's Congresses (PPCs), and local governments have asserted and institutionalized their power by means of a network strategy, which places more emphasis on embeddedness [that is, institutions are more embedded into instead of insulated from each other], connectedness and reciprocity rather than on insulation, open conflict and autonomy. The central state and local states also have been bound together by means of sophisticated institutional linkages.

That China is a new species within the parameters of the developmental state theory explains how the Chinese system has changed itself even while maintaining the state capacity. Therefore, decentralization and legislative activism, which usually are twin challenges to the state capacity in other countries, have not posed an immediate threat to the maintenance of the state capacity nor to the integration of China as a nation.

To support my central thesis of a dual developmental state, I will utilize the institutional economic approach to interpret China's emulation of the East Asian experiences, as well as to interpret its industrial policies and major innovations within the state. By focusing on the NPC, the PPCs and the Municipality of Shenzhen (the first and most influential Special Economic Zone or SEZ), I will try to highlight the legislative and local perspectives of a multifaceted developmental state as it manifests itself in China.

My central thesis is that in the process of creating a market-oriented economy, China has intentionally emulated the practices of Japan and the East Asian "Four Little Dragons" and successfully adopted the developmental-state model. To accommodate and support this model, the Chinese state--owing to its territorial and demographic size and its Communist background--has also transformed itself and adapted to the



new choice-set imposed by this model. The two most important institutional arrangements have been decentralization and legislative empowerment that have led to the reduction of transaction costs and to the creation of markets (marketization). Actually marketization has provided the dynamics for the institutionalization of some important structures (such as the PPCs and the center-periphery relationship) within the Chinese state. But the developmental state model has provided a context, shaping and structuring the styles and characteristics of these processes of institutionalization. In other words, the concern of the state capacity has imposed constraints upon the way in which these institutions have developed and restructured their relationship with other existing institutions. In summary, the institutionalization of legislatures and decentralization have followed the network strategy, and because of this strategy, the Chinese political system has been characterized by a matrix of power and institutional linkages. Furthermore, its pattern of interaction has been one marked by reciprocity and consultation. Coupled with the culture-rooted informational ties and connections, these linkages have greatly helped the powerful actors to exchange information, coordinate policy, reduce misunderstandings, and manage conflicts. As a result, the newly established institutions have been market-facilitating because they often have successfully granted autonomy to the institutions which needed it. At the same time, these institutions being connected with each other have avoided generating unmanageable conflicts.

When a developmental central state coexists with local developmental states, a developmental executive coexists with a developmental legislative system in China, a dual developmental state is formed. This new institutional construct provides an organizing principle for the Chinese leadership to conduct its regime's transition as well as a fundamental guideline by which we are able to understand the current Chinese political economy.

### **A Note on Methodology**

My research relies heavily on the analytical concepts developed by comparative transaction costs analysis (Coase 1937, 1960; Williamson 1975, 1985, 1996; Williamson and Winter 1993; North 1981, 1990; Drobak and Nye 1997). As Thrainn Eggertsson (1990, 14) has summarized, "Transaction costs are the costs that arise when individuals exchange ownership rights to