Chapter 5

China

Composite Regime?

China embarked on an extensive economic reform program in the late 1970s. Over the next four decades, the previously agricultural economy became a manufacturing powerhouse. Vast numbers of peasants left the hinterlands to take up employment in the secondary and tertiary sectors. Moreover, manufacturing, initially reliant on FDI and simple assembly and packaging of components for exports, gained a multifaceted capacity for forward-and-backward linkages, domestic innovation, and cutting-edge technologies. T-shirts and toys gave way to computers, consumer electronics, steel, automobiles, pharmaceuticals, and solar power. Once dependent on foreign capital, China became transformed into a global financier. Throughout the process, the economy delivered quantum leaps in GDP.

From 1979 to 2018, China's annual real GDP averaged 9.5 percent. China has thus doubled the size of its economy in real terms every eight years. Between 1978 and 2020, the country's share of global GDP expanded from 3 percent to 20 percent, making China the second largest economy in the world. The country accounted for nearly 30 percent of the world's global growth and was the world's largest repository for foreign reserves. Per capita GDP rose from under $200 in 1979 to nearly $10,000 in 2020, generating an extensive middle class. The World Bank declared the Chinese experience to be "the fastest sustained expansion by a major economy in history."[1]

Beyond such statistics, the country's stunning transformation was unmistakable to even the casual observer: gleaming glass towers in Shanghai, numerous swishing fashionistas on the streets of major cities, and awesome displays of sophisticated technology and organization at the 2008 Beijing Olympics. The IMF's 2011 decision to award China a vice presidency further testified to its enhanced global status, as did President Xi Jinping's announcement that the country would use its treasure chest of foreign reserves to support massive regional and global infrastructure improvements through the Asia Infrastructure Investment Bank (AIIB), its Belt and Road initiative (BRI), and the New Development Bank (NDB).

The regime driving this transformation diverged sharply from its prereform predecessor. Despite fulsome efforts at socialist transformation in the aftermath of the 1949 Communist Party takeover, Maoist China remained one of the poorest countries in the world thirty years later, as the regime stuck loyally to the twin pillars of Leninist authoritarianism and economic autarky. Ideological factionalism endangered domestic stability, while from outside both the Soviet Union and the United States loomed as military challengers. From 1949 until at least 1971, the Communist Party retained power through ideological intolerance and brutal force superimposed on a claim of legitimacy linked to its long and successful revolutionary struggle. During the Maoist period, ideological dogma drove economics; pragmatism lagged far behind.

To be sure, the legacies of colonial voracity, contentious warlords, triad gangs, a devastating war with Japan, and a decades-long civil war had bequeathed far more daunting challenges than promising panaceas to the incoming Communist leaders. Still, the politically driven turmoil of the Great Leap Forward and the Cultural Revolution manacled the national economic paradigm. China was ripe for foreign caricature, and until the early 1970s showed little that foreshadowed the country's eventual economic dynamism.

Initially, under Hua Guofeng and then, starting in December 1978, under Deng Xiaoping, the Communist Party engineered a sequence of breaks from past policies, injecting a dollop of capitalist spice into the country's Marxist-Maoist gruel, a process euphemistically marketed as "socialism with Chinese characteristics." Puritanical self-sacrifice and permanent revolution gave way to Deng's Gordon Gekko-esque aphorism that "to get rich is glorious" and Deng's[2] pithy pragmatic observation that "it doesn't matter whether a cat is black or white so long as it catches the mice." What followed was forty years of meteoric economic transformation at least as impressive as that achieved by Japan, Korea, and Taiwan.

To paraphrase Mark Twain, regimes do not repeat themselves, but they may occasionally rhyme. In this regard, the Chinese regime, for much of the period from 1978 to 2020, bore some resemblances to those in Japan, Korea, and Taiwan at the height of their respective developmental successes.[3] Certainly, all four shared the goal of catch-up industrialization. Strong state institutions and the marginalization of potential regime opponents were similar. With several important exceptions discussed below, the Chinese regime embraced an economic paradigm of deep industrialization, capital targeting to selected sectors, an undervalued currency, human skill enhancement, and export successes of manufactured products, all redolent of embedded mercantilism.

Similar to the ersatz developmental regimes, however, for decades China relied heavily on foreign direct investment for capital and technology, while it provided vast injections of indigenous low-wage labor. Also dissimilar from the developmental regimes but like the rapacious regimes analyzed in chapter 4,

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Similar to the ersatz developmental regimes, however, for decades China relied heavily on foreign direct investment for capital and technology, while it provided vast injections of indigenous low-wage labor. Also dissimilar from the developmental regimes but like the rapacious regimes analyzed in chapter 4, a powerful and cohesive Communist Party controlled the most influential levers of state power with little worry about checks by cohesive and independent socioeconomic forces. In addition, senior-level corruption was widespread in both. Unlike the rapacious regimes, however, the Chinese party-state did not restrict economic gains to the pockets of the ruling few, instead overseeing a dispersal of benefits to vast numbers of the Chinese citizenry. Some 600 million Chinese escaped from abject privation, with the national poverty rate falling from 85 percent to roughly 5 percent between 1981 and 2015.[4] To what extent China has replicated the traits of the other regime clusters, and to what extent it differed, presents the primary question addressed in this chapter.[5]

State Institutions

China's party-state machinery commanded uninterrupted authority and power. If the developmental regimes enjoyed cohesive, technically competent, and controlling state structures, none wielded the sweeping powers of the Chinese Communist Party (CCP)—under Mao unquestionably—but with protracted continuities into Xi Jinping's presidency.

Party structures mirror those in other Communist countries. Central is the institutionalized fusion of the Communist Party, on the one hand, and state administrative organs on the other, that is, the party-state. As Franz Schurmann, in his masterful analysis put it, the state involves the bureaucracy, the army, the law, the "body of organized formal instruments from which command flows." The party on the other hand, "is the organized expression of the will of society; it actualizes the control of society over the state."[6] In principle, the state apparatus controls society, while the party, representing society, runs state institutions. Party cadres and cells, down to the grassroots level, extend the authoritative reach of the party-state through microcontrol of all social organizations of substantial size or significance, such as factories, schools, hospitals, army units, and local communities.

This system of double control is fundamental to the regime's institutional composition.[7] As Ringen phrased it: "If it were not for a determination to control, there would be no rationale for the double system. And once there is a party-state, the determination to control is a given."[8] The combined forces of party and state knit together an extensive network of mechanisms directing politics, society, and policy. Party-state authorities wield a variety of institutional tools enabling resistance to any challenges to that dominance.[9]

Anxieties about party control reached fever pitch following the collapse of the Soviet Union and its Eastern European Communist satellites. Chinese party-state leaders internalized a singular lesson from Mikhail Gorbachev's pursuit of political reforms as the prelude to economic reforms: the combination was disastrous and was responsible for the loss of party control and the collapse of the Soviet empire. Equally worrisome were the color revolutions

that burst forth in several countries of the former Soviet Union and the Balkans during the early 2000s.[10] In defensive response, Chinese leaders labored to retain strict political control, even as they embraced an economic paradigm designed to move away from state ownership, collectivization, and state planning

The CCP constitution grants its Central Committee the power to choose top party leaders and gives the party the legal authority to appoint government officials. In the immediate aftermath of the military victory in 1949, however, formal lines of authority were blurry due to the de facto capacity of individual revolutionary personalities, some retired or holding no formal position, to manipulate the choice of top party officials. With time, however, and spurred by a landmark 1980s speech by Deng Xiaoping, the party's and the Central Committee's powers became institutionalized through formal rules, clear lines of authority, and collective decision-making.[11]

Many analyses of China bifurcate the Maoist period from the post-Mao period.[12] Valid as this may be for economics and living conditions, the developmental miracle of China owes much to the historical heritage of the Maoist era. Most critically, the Maoist legacy provided China with a strong Leninist party-state and a concentration of power in the Communist Party.[13]

Nonetheless, the Chinese Communist Party was less fully centralized than was its Soviet counterpart.[14] China's massive population and geographical diversity and sheer vastness favored a measure of decentralization. As of 2017, China had 33 provincial level units (22 provinces, plus 5 autonomous regions, 4 municipalities, and 2 special regions). Below these were 334 prefecture-level divisions, 2,862 county-level divisions, 41,034 township-level administrations, and 704,382 village-level subdivisions. The ruling CCP assigned extensive power to mayors and party secretaries at such lower levels, where most functions of local governance take place.

At the center, a complex of party-state institutions directed and implemented policy. Most important were the Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the Industrial and Commercial Management Bureau, the Committee for Reform of the Economic System, along with several other bureaucratic agencies that collectively constitute the "brain trust" in charge of functionally differentiated reforms. Recruitment of economic bureaucrats became increasingly meritocratic.[15]

Strict organization was vital to party-state supremacy. Certainly, Deng Xiaoping, the primary architect of China's initial reform program, was a consummate believer that the party needed deep institutional roots to retain long-term power. As Lucian Pye observed: "Whereas Mao and many other Chinese leaders thought Communism's greatest strength was in its ideology and its world view . . . Deng [believed] that the supreme imperative was the preservation of the Party's organizational identity and monopoly on power."[16] Fused interactions between state and party were essential to ensuring high levels of social compliance with political priorities.

Party-state control benefits from an extensive network of state corporatist organizations that burrow deeply into society and facilitate mobilization in compliance with the political agenda. Such organizations take the form of state-created and state-led corporatist bodies that are hierarchical, exclusive, and noncompetitive.[17] During the 1980s, the CCP created numerous such associations, and by the early 1990s, the government had approved tens of thousands of such bodies at all levels of government. Included were science and technology associations, organizations for specific economic sectors, cultural groups, as well as health, sports, social welfare, and public affairs associations.[18] The government subsequently supplemented these with a new type of organization, anomalously labeled, government-organized NGOs, designed to fuse private firms into bodies such as the Private Enterprises Association and the Federation of Industry and Commerce.

Communist Party officials lead all such organizations. Their appointments and directions come from party committees. While such corporatist bodies afford an element of political space to societal actors, they do so only within tightly confined limits subject to party-state authority. Their primary function is less to aggregate interests from the bottom up, and more to disseminate downward centrally controlled propaganda and dictates.

A particularly effective cudgel is domination over information, where Orwellian powers enhance party-state control. Virtually all media outlets are state run and state organs retain tight reins over both new and traditional media. In print, Xinhua serves as the nodal driver of party-state print propaganda; it is vast, strong, and officially sanctioned. Meanwhile, one billion citizens have television access and China Central Television (CCTV), with its twenty-two program channels, is the country's only national network.[19] Like Xinhua, it is huge, operating under the direct supervision of the Propaganda Department for content and the State Administration of Radio, Film and Television for operations. The CCTV's main news broadcast at 7 p.m. must be broadcast by all local stations and nearly 500 million people countrywide regularly tune in.[20]

Internet use is also extensive and strictly monitored. Top party and government officials enjoy open access; yet most citizens confront myriad limitations, particularly in locating information the government deems problematic. A 2010 articulation of Internet sovereignty requires all Internet users in China, including foreign organizations and individuals, to abide by Chinese laws and regulations. Many international social media sites face complete bans, while search engines must accede to government restrictions preventing unwanted links or sites. Vague regulations and some two million Internet monitors facilitate state crackdowns, often triggering self-censorship.[21]

Equally instrumental in restricting the flow of politically unwanted information is control over journalistic access along with selective lifting or denial of press credentials to foreign journalists deemed less than friendly. The Committee to Protect Journalists thus claims that China "continues to be the world's leading jailer of journalists."[22] Reporters without Borders ranked China at very near the bottom of its World Press Freedom Index.[23]

Party-state institutions thus wield multiple levers that ensure cohesive control. In summer 1975, for example, Muslim villagers in a remote area of Yunnan Province refused to pay a grain tax until authorities met their demands for greater religious freedom. Deng dispatched military forces to suppress the dissident movement, resulting in an estimated sixteen hundred deaths.[24] Similarly, following the funeral of Zhou Enlai on April 5, 1976, large numbers of Beijing citizens mobilized in Tiananmen Square to mourn, a move that violated the ban on all citizen demonstrations in the Square. The PLA (People's Liberation Army), militias, and other security forces violently cleared the mourners. Similarly, on April 25, 1999, over ten thousand followers of the meditation and exercise cult Falun Gong appeared with no apparent warning outside the party's leadership compound to meditate in protest against what they claimed was harassment by police officials. Three months later, the party announced that the demonstration had laid siege to the central government compound, after which President Jiang initiated a systematic decades-long crackdown on the group.

The most notorious example of government suppression of popular protest, of course, was the 1989 crackdown on demonstrators in Tiananmen Square. As with the 1976 response to the death of Zhou Enlai, students began clustering in Tiananmen Square on April 15, 1989, to honor the memory of recently departed Hu Yaobang, whom many considered to have been a sympathetic party leader.[25] The numbers in the square swelled over the next month as tens of thousands of students and local residents crowded in, displaying a dimension of citizen activism not seen since the Maoist period.

The Tiananmen demonstrations were almost coterminous with the collapse of communism across Eastern Europe and the first Gulf War (1989–92), telegraphing even more dramatically to CCP leaders the likelihood that China was at a critical inflection point. Politburo leadership cohered around responding with overwhelming force. On May 20, the government declared martial law, and on the night of June 3–4, PLA troops poured in to clear the square. Some estimates contend that as many as ten thousand died.[26] Efforts to express social demands outside those integrated with the party-state political machinery proved evanescent.

In the aftermath of Tiananmen, the CCP forged a model of collective leadership, term limits, and mandatory retirement ages, all designed to mitigate internal leadership disagreements and counterbalance one-man rule. Neither Jiang Zemin, general secretary from 1989 to 2002, nor Hu Jintao, 2002–2012, ever gained singular control or became the "core" leader capable of ensuring discipline among other party bigwigs. Only with Xi Jinping did collective leadership surrender to the reconcentration of power in a singular dominant leader.[27]

Xi Jinping, like Deng, gained singular individual authority as head of the party, the military, and the government. He used his presidency to return leadership to what Schell and Shirk labeled "personalistic dictatorship, Leninist party rule, and enforced ideological conformity."[28] Rules tightened, Internet censorship increased, cyberspace policing expanded. By 2019, the government was also creating facial recognition techniques, along with a social credit system designed to monitor and assess the conduct of every Chinese citizen. Xi also incarcerated vast numbers of Uighur Muslims in internment camps notionally designed to ensure what was euphemistically labelled "reeducation."

Among other things, such measures aim to reduce the chances that the Chinese Communist Party will suffer the fate of such parties in the USSR and Eastern Europe, all of whom surrendered substantial portions of their prior dominance to regime opponents. Beyond self-protection of the party-state domestically, President Xi has portrayed the Chinese regime as offering "a completely new option for countries and peoples who want to speed up their development while preserving their independence."[29]

At the same time, powerful as the Chinese party-state apparatus has been, state power alone was insufficient to advance a successful economic paradigm. Critical as well were two additional regime components: first, the animal spirits of socioeconomic creativity, and second, a supportive international environment. Their fused symbiosis with state institutions was essential for the regime to function effectively in conjunction with the transformative economic paradigm

Socioeconomic Forces

From its origins in 1949, the Communist Party and the governmental institutions under its control have been the most dominant components of the Chinese regime. Socioeconomic forces reflect that preeminence. As rapid growth led to improved socioeconomic conditions, however, new forces emerged that the party-state sought to absorb and regulate rather than allowing them sufficient autonomy to in any way serve as an independent check.

The party has long treated economic class as the defining structural underpinning of political power. Class was the initial determinant of eligibility for party membership. Peasants and workers basked in official valorization as the forces from which the party hypothetically drew its legitimacy and in whose collective interests party leaders purportedly toiled. Powerful landowners vanished as a force with the brutal reforms following the Communist takeover. The elimination of large landholders solidified peasants as a pillar of CCP support, even if peasants enjoyed none of the economic powers accruing to private ownership.

Private property owners or businesses, in contrast, faced waves of nationalization of such private assets. Well into the late 1970s, Chinese society was devoid of independent socioeconomic forces capable of presenting any meaningful counterweight to the party-state. Top-down central direction faced minimal challenge or feedback from autonomous social entities. Nonetheless, the combination of the Great Leap Forward and the Cultural Revolution advanced the fiction that party leaders were continually following the masses.

Traditionally, the CCP claimed to represent the interests of five major groups: workers, peasants, intellectuals, members of the PLA, and government officials and cadres. The majority of the party's original rank and file were those who could demonstrate a proletariat background. Private entrepreneurs—actually an official euphemism for capitalists or private businesspeople—were barred from the party. This changed with the economic shifts.

Starting in 1979, a household responsibility system became the key instrument in rural reform, replacing collective peasant groups. Nor was such enhanced influence restricted to farmers, minor shopkeepers, and small factories. As the economy expanded, private enterprises of considerable scale began to replace the previously dominant collective enterprises. By the 1990s, the private sector, entrepreneurs, and numerous citizens had acquired substantial economic muscularity. Rather than allowing these newly enriched forces to fester as a potential regime threat, however, the party-state advanced a sequence of slow adjustments to clasp the newly enriched within a constrictive embrace.

Extolling the progress made by privatized ventures, the Fourteenth Party Congress in 1992 consecrated the expression "socialist market economy" as an integral party objective.[30] In 1997, it went further, acknowledging that private enterprise was an integral component of the Chinese economy. It moved preemptively to remove its ban preventing party cadres from entering private businesses, thereby opening the way for political elites to leverage their official positions to gain economic advantage.[31] Finally, in 2001, Premier Jiang Zemin, celebrating the eightieth birthday of the Party, dismayed the ghosts of Marx, Lenin, and Mao by announcing that private entrepreneurs, business owners, self-employed artists, as well as white-collar professionals employed by foreign companies and joint ventures, were welcome to join the party. According to Jiang, such people could make a positive contribution to the rebuilding of China's socialism and should not face party exclusion. He argued that simply being a property owner should not determine whether individuals are politically progressive (*xianjin*) or backward (*luohou*).

Following Jiang's speech, more than 100,000 "private entrepreneurs" applied to join the party. The party then sought to recruit an additional 200,000 such entrepreneurs before the Sixteenth Congress in September 2002. In championing the inclusion of such protocapitalists, Jiang's supporters hailed the move as a theoretical breakthrough shedding withered party dogmas, including the shackle of class. This change brought newly rich business executives into the party, lashing political resources and economic resources together for their mutual benefit and the advancement of the transformative national economic project.[32]

The move ensured that those newly enriched by the economic reforms would remain dependent on party forbearance and would neither impede continued party control nor challenge the regime more broadly. Consequently, most individuals and groups who gain wealth or social power in China seek not autonomy but intimacy with the state. Autonomy is akin to powerlessness. Those who want to best pursue their interests and maximize their influence search out ways of connecting to the state.[33]

CCP membership evolved to reflect the party's adaptation. In 1978, the party consisted of 46 percent peasants, 19 percent workers, 7 percent military, and only 26 percent white-collar workers, professionals, and students. By 2013, the percentage of peasants had fallen to 30 percent and workers had dropped to 9 percent. The CCP instead brought larger numbers of what it deemed intellectuals, that is, those with college educations into its ranks. At the Sixteenth Party Congress in 2002, college-educated party members accounted for 24 percent of the total. This rose to 40 percent at the Eighteenth Party Congress five years later, and by the end of 2013, 42 percent of CCP members were college educated, a striking contrast to 1978, when less than 3 percent of the party membership had college experience.[34]

In a relentless effort to rebuild its grassroots organizations, and even to push for their expansion into the new social spaces created by marketization, the party also loosened its previously rigid control over workplaces, schools, communities, and the day-to-day life experiences of most citizens.[35] It reduced microcontrols so that workplaces in particular, from agricultural cooperatives to the SOEs, came increasingly to operate in conjunction with market rather than political forces. As a result, most individuals no longer needed to depend on the party for jobs, living quarters, or essential supplies such as food, clothing, health care, or education. These needs could instead be readily satisfied by the market.[36]

Considerable state effort went into enhancing the breadth and depth of education and skill development. Before 1949, only 20 percent of Chinese children attended primary school; by 1986, that figure was 96 percent. In 2017, China had 2,631 colleges and universities producing more than 7 million graduates per year, with nearly 20 percent of the age cohort in attendance.[37] Over one-third of students were in programs of engineering, with figures even higher for STEM subjects. An equally critical component of reform was the funding of tens of thousands of students sent for study abroad. The returns were high, with vast improvements in the quality of Chinese universities and the skill levels of graduates.

Technology spending was equally robust. China's R&D spending surged by an annual average of 20.3 percent between 1992 and 2017, reaching about $257 billion, or 123 times higher than in 1991. By the end of 2017, the country had 6.2 million employees in R&D, spending for which accounted for 2.12 percent of China's GDP.[38] By then, China accounted for about 23 percent of scientific publications in international journals.[39] In all of these ways, the skill levels of the workforce expanded, providing both upward mobility options to many individuals and an enriched talent pool for the economy.

Yet such changes heightened rather than diminished income inequalities. In contrast to the developmental regimes that maintained low inequality throughout their major growth spurts, China experienced a rapid widening of income differentials.[40] The country's Gini index climbed steeply, from 0.3 in 1978 to 0.45 in 2016.

At the heart of this increasing inequality was the fusion of economic and political interests. In particular, greater marketization offered enhanced opportunities for political officials to use their offices to pursue personal profit. Businesspeople sought regulatory exemptions and other competitive advantages from state officials, who in turn were free to exercise their discretionary powers in service of petitioners likely to manifest their gratitude in fiduciary ways.

Military commanders too acquired controlling interests in rent-generating enterprises within areas under their geographic command.[41] Politico-bureaucratic corruption and abuse of public office increased substantially with market reforms. More people became involved, those involved were more senior, and the scale of abuse was more extensive.[42] A 2012 *New York Times* investigation focused on Prime Minister Wen Jiabao revealed the extent to which official corruption permeated the regime at the very top. After tracing the impoverished conditions of Wen's family and his early life, the investigation reported, "the prime minister's relatives—some of whom, including his wife, have a knack for aggressive deal making—have controlled assets worth at least $2.7 billion."[43]

The rise in China's inequality and the escalation in official corruption made for a more active and periodically contentious citizenry.[44] As Ming Wan noted, this fusion between the politically and economically powerful shared a common interest in repressing any societal discontent from the "losers."[45] Citizen protests expanded as a result. The Chinese Academy of Social Sciences estimated the number of annual mass incidents to exceed 90,000 in 2006. Sociology professor Sun Liping estimated 180,000 incidents in 2010.[46] Such incidents range from relatively low key and nationally unproblematic local disputes over land use or petitioning of local officials up to massive and more destabilizing ethnic protests such as those in Xinjiang or Tibet.

As part of his overall effort to tamp down such dissent, reduce corruption, and consolidate his singular control, President Xi Jinping, after his ascent in 2012, began a massive corruption crackdown (which, not at all coincidentally, enveloped many of his political enemies as well). Between 2012 and 2017, the Central Commission for Discipline Inspection (CCDI) carried out an unprecedented crackdown, subjecting more than 1.5 million officials to disciplinary actions that ranged from party expulsion to prosecution and imprisonment.[47] The anticorruption campaign became a defining element of Xi's presidency while contributing substantially to his quick consolidation of power. There is no evidence, however, that the campaign contributed in any meaningful way to dislodging the profitable symbiosis between self-aggrandizing officials and the already well off.[48] Xi's campaign did, however, reassert the authority of the party-state while reminding private profiteers, whether government or party officials or private businesspeople, that their wealth was incapable of inoculating them from its overweening power.

External Forces

As it began its developmental trek, China encountered external conditions that closed off certain paths but rendered others more tempting.[49] The United States certainly provided none of the unilateral support it had rendered to the developmental regimes. In 1949, China, like all Communist countries at the time, faced an international environment structured by hostile US-led sanctions. By the 1979 reforms, such constraints had loosened, but Chinese leaders nevertheless had to make major domestic adjustments to meet daunting international demands and to reckon with the enhanced influence of global finance, much as was true of the ersatz developmental regimes.

Thus, following the Communist takeover in 1949, the United States, in tandem with its Western allies, endeavored to isolate China from the multilateral economic system it was forging. The CCP had no part in establishing, nor any interest in joining, GATT, the World Bank, or the IMF. Nor was China integrated into global transportation, communication and trade networks, corporate joint ventures, and the like. The United States sought to deny China access to Western technology, foreign aid, trade, foreign direct investment, and other forms of economic engagement, and through such sanctions, to force regime change or collapse.

US-led efforts found a mirror in the Chinese party-state's own predisposition to avoid entanglements with what it viewed as imperialist powers. In addition to prioritizing state planning at home, the party embraced anticolonialism, anti-imperialism, and the promotion of revolutionary movements abroad. China sought to position itself as the leader and model for countries that had recently shucked off their colonial shackles. Zhou Enlai, for example, took a commanding presence at the 1955 Bandung Conference, the precursor of the so-called nonaligned movement. In addition, China maintained a network of political and economic ties to the other Communist regimes in Asia and Europe. For over two decades, China entrenched itself on one side of the bipolar chasm cleaving the Asia-Pacific.

Well before the collapse of the Soviet Union and its East European satellites, Cold War rigidities blurred in East Asia as tensions between the PRC and the USSR expanded and the United States and China found overlapping geostrategic reasons to form closer ties.[50] Both the United States and China tiptoed toward ad hoc cooperation accompanied by a number of well-catalogued accommodations. The PRC replaced Taiwan in the China seat at the United Nations and its component bodies. Formal diplomatic normalization of US–China relations occurred in 1979 under President Carter. A nine-day visit by Deng and a huge Chinese entourage in February 1979 followed, highlighted by the famous photo of Deng in a ten-gallon hat at a Texas rodeo, a public relations coup that led many in the United States to conclude that the Chinese leadership was coming over to the United States' side. Thus began what proved to be decades of increased economic interdependence between the two prior enemies.

Although security tensions hardly vanished, the improving external conditions paved the way for China's internal economic moves. Until the collapse of the Soviet Union, China, the United States, and the USSR engaged in a three-way balancing act of calculated oscillations between cooperation and confrontation. On the economic front, however, US leaders encouraged China's domestic transformation as an additional counterweight against the USSR. Given the abysmal condition of the Chinese economy at the time, US policymakers exhibited little anxiety that an economically more vigorous China would pose any short- to medium-term risk to the United States' own economic or security preeminence.

Japanese leaders also hurried to improve relations with China. In 1972, Prime Minister Tanaka made a visit to Beijing that normalized their bilateral relations while terminating Japan's official relations with Taiwan. Japan went on to become China's most generous donor of economic assistance and a strong proponent of bilateral economic interdependence. The Nixon and Tanaka visits were vital first steps in improving China's external environment.

Japanese assistance was of particular value.[51] Following diplomatic normalization and the signing of the Treaty of Peace and Friendship between the two countries, Japan became China's closest capitalist collaborator. From 1979 to early 2016, Japan sent China approximately ¥3.3164 trillion in loan aid, ¥57.2 billion in grant aid, and ¥181.7 billion in technical cooperation.[52] Private sector investments from Japan were equally extensive. For the period 2005 to 2012 alone, Japanese FDI to China ranged between $5 billion and $15 billion per year.[53] By 2007, China and Hong Kong in combination accounted for 9.1 percent of Japan's total FDI overseas stock. Only the United States (31.9 percent) and the Netherlands (11.7 percent) garnered larger proportions of Japanese money.

As China began its economic transition, global manufacturing processes were becoming modularized, fostering the expansion of regional and global production networks. Meanwhile, international capital and foreign companies were impatient to penetrate the enormous Chinese market. Even though American domestic political and business forces were resisting intense competition from foreign imports, free trade principles remained broadly pervasive. China's desperate need for capital, technology, and managerial skills further constrained policymakers who had few alternatives but to work within existing trade and financial constrictions.[54] Rather more positive for China, once the Soviet Union had collapsed and the United States was out of Vietnam, China could operate within low levels of geostrategic competition and fewer demands to expend scarce resources on the military.

Chinese leaders took full advantage of existing global institutions, joining the IMF and the World Bank in 1980, the Asian Development Bank in 1986, and the WTO in 2001. China's senior leaders saw membership in the first three as entailing few costs. IMF borrowing was minimal and domestic capital controls were sufficiently extensive to ensure that China's financial system remained almost completely insulated from global markets.[55] Furthermore, rather than challenging the CCP's power, such incoming investments reinforced the strength of the party-state, which retained ultimate authority to approve or reject such deals. At the same time, joining the WTO would prove to entail serious costs by constricting SOEs, encouraging foreign competition on Chinese soil, and necessitating far greater transparency in state subsidies and purchases.

Yet even as China won foreign favor by advancing its domestic economic transformation and improving its foreign relations, the brutal crackdown at Tiananmen met international revulsion. As the demonstrators' spellbinding cacophony gained momentum, so did global media coverage, creating an ominous challenge for CCP leaders. The brutality of the suppression unleashed an onslaught of economic sanctions that threatened China's access to foreign markets as well as the inflow of foreign capital and technology. The previously positive international environment shifted 180 degrees, demonstrating to China's leaders the country's ambivalent standing among foreign powers. Tiananmen did less to damage Japan–China relations, however, and Japan became the first democracy to end economic sanctions against the regime and to resume normal economic relations, a move for which Chinese leaders were at the time quite grateful.

The Chinese leadership sought ways to portray Tiananmen as an unfortunate parenthesis in a more positive trajectory rather than as some logical manifestation of authoritarian party-state rule. To deal with Tiananmen sanctions, China pursued a "blunting" strategy toward the United States, seeking renewed US ties, keeping a low profile diplomatically, and attempting to demonstrate the peaceful and positive nature of China's rise.[56] The operative doctrine was Deng's admonition that China should hide its strengths and bide its time.

Chinese leaders also shored up the country's diplomatic architecture by improving relations with Taiwan and India as well as normalizing relations with Vietnam and South Korea. Furthermore, it managed to settle more than a dozen previously unresolved land boundaries with its fourteen neighboring states.[57] In addition, a series of Chinese economic decisions following the Asian financial crisis of 1997–98 enhanced the regime's overseas image, because China resisted the economic and political temptations to devalue its currency. Doing so would have aligned the yuan with the falling currencies elsewhere in East Asia; however, China kept its currency stable, thereby winning foreign appreciation from its Asian neighbors for not using its temporary advantage to cut into their export markets.

Foreign financial opportunity soon trumped moral hesitations about authoritarianism and human rights, leading to a resumption of favorable external conditions. As memories of Tiananmen faded and liberalizing reforms in China gained traction, the United States, along with other capital-rich countries, sought to integrate China into the broader global trade and investment order. George H. W. Bush, an enthusiastic US envoy to China in the 1970s, had resisted calls to sever ties with the Chinese regime after Tiananmen. Then, despite decrying the "butchers of Beijing" as a candidate, President Clinton negotiated a series of Chinese structural reforms that led first to Permanent Normal Trading Relations (NTR) status and then to US sponsorship of China's membership in the WTO in 2001.[58]

China's entry into the WTO required costly accommodations. As Mark Beeson notes: "Not only had greater trans-border economic integration become the norm in the intervening decades, the international regulatory architecture had become more influential and intrusive as well. Nowhere was this more apparent than in the conditions required for China's accession to the World Trade Organization (WTO). China agreed to 'open to the outside world.' In joining, China was required to agree to terms that 'far surpassed those made by founding members.'"[59] Of particular note, the TRIPS (Trade-Related Aspects of Intellectual Property Rights) and TRIMS (Trade-Related Investment Measures) requirements of the WTO made it far more difficult for the Chinese regime, as compared with earlier entrants, to engage in free riding by continued technology, trade, and domestic market protection.

Chinese policymakers were convinced that opening the domestic economy to the outside world would best serve China's (and the party's) long-term interests.[60] They thus welcomed the newfound financial opportunities and China's global economic ties expanded rapidly. In addition, WTO accession became a lever by which the national leadership could force through domestic structural changes over resistance from SOEs, prefectural governments, and others.

In all of these ways, the global environment came to provide a number of formidable supports for the existing Chinese regime and the corresponding economic developmental project, even as those supports forced harsh regime and policy adjustments. Yet despite the expectations of many Western policymakers and academics that a richer China would become a more democratic China, accommodation to the global liberal order did not generate political loosening. If foreign investment and global engagement may ultimately improve the environment for future democratization through the promotion of the rule of law, transparency, and the freer flow of information, in the short term the openness of foreign markets and the tolerance of foreign policymakers afforded the regime more time and political space to pursue economic reform without political liberalization.[61] As the analysis above made clear, democratization and constraints on party-state supremacy were not on the CCP's agenda.

Economic Policy Paradigm

The transformative economic strategy of the Chinese regime shared the goal of the developmental regimes in its fulsome commitment to catch-up industrialization. As Tsai and Naughton have argued, "China's highly interventionist form of state capitalism certainly accords with the general spirit of a Gerschenkronian world, in which massive investment in modern infrastructure, mobilized through a state-run banking system, serve to catapult a formerly poor country into the ranks of modern developed economies."[62] The regime in post-1979 China resonated as well with the developmental regimes in their common emphasis on garnering large shares of global exports through enhanced global competitiveness of domestic production. Yet if Chinese policymakers aspired to follow in the path of the developmental regimes in those respects, the external conditions they confronted were less favorable. Therefore, China's successful economic paradigm rested on a delicate balance between state direction and the quest for private profit. It is important to note that this balance shifted with time—broadly speaking, toward foreign investment, local control, and private ownership, but then back to greater centralization and reduced foreign control.

Limited domestic sources of capital, managerial skills, and technology combined with the radically enhanced mobility of capital meant that, reluctantly or not, the initial Chinese policy paradigm faced strong incentives to permit foreign penetration. Limited domestic capital reduced the opportunities to protect domestic markets, instead favoring a turn toward foreign capital and technology. Chinese leaders opted for state policies to bring in what they needed from outside. Thus, the percentage of total foreign fixed investment reached 7 percent in China during 1980–2005, whereas, during periods of comparable economic development, it ranged from only 0.2 percent in Japan (1950–72) to 2.4 and 2.6 percent in Taiwan (1960–85) and Korea (1965–90).[63] Greater domestic openness left China in its early industrialization efforts resembling the ersatz developmental regimes and the more globally penetrated dismantling years in South Korea, Taiwan, and Japan.

Despite accepting imports and FDI, the party-state sought to circumvent the risks of permanent dependence and economic inferiority. This required it to navigate a treacherous path between the Scylla of constricted access to essential capital and technology and the Charybdis of permanent dependence and inferiority. The Chinese economic paradigm pivoted around a complicated juggling of state-owned enterprises, private domestic firms, and foreign corporations. Policy began with heavy doses of domestic liberalization and infusions from abroad, but gradually shifted to a reduction of foreign dependence and enhanced national control over the nature and profitability of sophisticated industrial and financial sectors.

Throughout the process, the party-state rarely released its grip on the national economic steering wheel, even as it shared the economic front seat with

local government officials and private entrepreneurs in search of their own profits. China's sheer size made face-to-face coordination among central state officials, local cadres, and enterprises complicated. It was both difficult and inefficient to impose uniform national plans for entire industries or the country as a whole; thus, national leaders relied more heavily on local experimentation and trial and error. A famous Chinese saying captures the dynamic: "the mountains are high and the emperor is far away."

The major economic changes introduced by Deng in 1978 advanced that mixture. Chinese economic policies had long rested on state planning, collectivized agriculture, and state-owned enterprises. Deng laid down the ideological tracks along which sweeping economic reforms could advance. His powerful speech at the Third Plenum in 1978 declared, "From this day forward, we renounce class struggle as the central focus, and instead take up economic development as our central focus." As Schell and Delury note, "With that single sentence, Deng summarily canceled two decades of Maoist policy."[64]

In the search for appropriate direction, Deng drew numerous lessons from abroad. As he declared in his youth, he felt it necessary to "study the West in order to save China."[65] Among his most important foreign influences were those of overseas economists. Some of the most influential had grown up in socialist systems, thus gaining firsthand knowledge about transitions away from centralized planning. These included the Hungarian Harvard professor Janos Kornai, the Czech émigré Ota Sik, and the Polish-born Oxford don Wlodzimierz Brus. However, Deng simultaneously encouraged the study of the successful experiences of capitalist countries. To that end, China invited economists such as Nobel laureates James Tobin and Milton Friedman for high-level consultations. Both Chinese leaders and economic technocrats absorbed numerous lessons from such foreigners, even as they resisted the temptation simply to gulp down any single foreign diet.[66]

Many of the most important lessons came from the successful transformations of neighboring regimes. Deng constantly peppered visitors from such countries for information about the economic, technological, and industrial lessons they might afford for China. Thus, in Lee Kuan Yew's Singapore, Chinese leaders found an example they could advance, namely, economic reforms under political authoritarianism.[67] Deng also studied Japan's success, and apparently jokingly asked Okita Saburo whether the latter could continue to advise China even after he became Japan's foreign minister.[68] In 1994, China released a new industrial policy that officially acknowledged the government's attention to the industrial policies of Japan's Ministry of International Trade and Industry (MITI).[69]

In December 1978, two years after Mao's death, the new party leadership committed itself to a modernization program in four key areas: industry, agriculture, science and technology, and national defense—the so-called four modernizations. Government officials signed contracts with Coca-Cola and Boeing, welcoming these two icons of capitalism into the Chinese market.

A few days later, Deng and his entourage embarked on their journey to the United States. The new policy paradigm had begun in earnest.

The reforms started in the rural areas with the transition from communes and production brigades into household responsibility, while devolution of greater authority to villages and townships meant a major compromise of top-down control. From 1949 until the reforms of the late 1970s, all peasants had been required to meet strict quotas for production and then to turn over each morsel of grain to state authorities for subsequent redistribution. China's economic reforms began by decollectivizing agriculture and loosening state reins in selective regions of the country.

An early example began in response to peasant demands in Anhui to take back their farms. The process allowed peasants to keep, and to sell on the open market, any grain they could produce that exceeded the official required quota. Massive jumps in total agricultural production followed, as swelling numbers of peasants embraced the animal spirits of profitability. Eventually, such additional production surpassed state quotas, with private profitability crops accounting for the bulk of the production. As agricultural production soared, ideological skeptics had to acknowledge that the reforms were producing positive results. At that point, acquiescence gave way to promulgation.[70]

A complete end to the commune system occurred in 1982 and the family became the primary unit of agricultural production. This proved compatible with the broader economic goals. As market reforms put more money into peasants' pockets, they bought more manufactured products and delivered more tax revenues to the state.[71] Even as growth and industrialization sped forward, agriculture remained a defining characteristic of the Chinese economic paradigm. As late as 2010, half of the Chinese population was rural; farming continued to account for 40 percent of rural employment.[72] Agricultural reforms, however, were extensive and included extensive modernization that transformed China into one of the world's largest producers of cereals, meat, and vegetables. In the late 2010s, the country was providing food for 22 percent of the world's population from 7 percent of its arable land.[73]

The central government also permitted the provincial governments to make and retain money. Thirty years under Mao had bequeathed an economic paradigm in which party-state institutions in Beijing retained top-down oversight of economic development. That component evaporated in the face of an array of far-reaching deviations from the actual policies advanced by the center to match more smoothly with local-level conditions. The result was the dramatic transformation of the political and economic machinery away from the centralized Maoist model, even as economic policy retained China's authoritarian bureaucratic political institutions and oversight. The combination of central authority and local flexibility became indispensable to both state governance and economic reform.[74]

Local officials worked from a centrally created list of quantifiable political and revenue deliverables. As long as local officials met these goals, they remained free to experiment. Other localities could then emulate any successes, while the risk of damage at the national level remained minimal. Local party officials could, in turn, become entrepreneurs or collaborate with such individuals to reap portions of any local economic successes.[75] As the national economic pie expanded, individual slices grew larger, successes that fed back to enhance national political stability and to legitimate and strengthen CCP control.

Low levels of domestic savings, however, limited domestic capital. Chinese savings rates were only around 10 percent of GDP when the economic reforms began. As a result, FDI proved the most attractive option for essential funding. To induce foreign investment, the government, long reliant on SOEs for most industrial production, eased regulations on incoming foreign monies and made SOEs responsible for their own profits and losses.[76] In addition, in 1980 a new policy apportioned revenues and expenditures between the national and local authorities, with the latter responsible for their own profits and losses as long as they met five-year revenue quotas.

Foreign monies accounted for as much as one-third of all national investment. This brought access to new technology, in large part because government requirements in key sectors required incoming foreign firms to take domestic partners and to transfer technology to them.[77] Concentrated as it was in export industries, this incoming FDI further advanced the overarching goal of economic catch-up. Official efforts to restrict the overweening force of global capital and FDI continually conflicted with the need for steady infusions of technology and capital. The result was far more penetration of China's economy by foreign capital and overseas firms than had been true in Japan, Korea, or Taiwan, rendering China's FDI levels more akin to those of Malaysia, Indonesia, and Thailand.

FDI streamed in from two different directions. The first came primarily from industrialized countries anxious to obtain access to the huge Chinese market; the second came largely from Taiwan and Hong Kong, typically initiated by ethnic Chinese. The latter aimed to utilize low-cost land and labor, and focused on assembly and final-stage manufacturing of goods designed for global export. During the period 1994–2002, Hong Kong was the largest such investor (41.9 percent), with Taiwan a distant fourth at 7 percent. Japan and the United States held places in between, with 9 percent and 8 percent, respectively.[78]

The mid- to late 1990s saw a series of huge public offerings by Chinese multinationals that raised billions, despite what Edith Terry called "murky accounting and majority government control of virtually all such entities."[79] Growth was prodigious and integrated with global markets. During the 1990s, China quadrupled its exports; however, foreign companies accounted for 46 percent of the nation's exports and 52 percent of its imports.[80] Meanwhile, the weight of the long-dominant SOEs in total industrial production in China plummeted from 80 to 15 percent in the twenty-five years to 2000.[81] Simon Pritchard accurately analyzed the wave of incoming investment: "The magnet of cheap labor, strong domestic demand and a pro-reform government created a compounding effect of expanding inward investment, supplier networks, and trading channels. Growth creates its own dynamic and Beijing is reaping the benefits of the shape of regional diplomatic muscle."[82]

To encourage greater inward investment, the Wholly Foreign Owned Enterprise (WFOE) Law of April 1986 freed foreign investors from the need to set up joint ventures with domestic Chinese companies. To be sure, the range and freedom of such activities remained heavily monitored by the state and at this stage they were still relatively small in number. Nonetheless, WFOEs were accepted as legitimate privately owned organizations and the law noted that there could be no interference in their operation and management activities.

The number and scale of FDI from other Asian countries grew rapidly. By 1993, Hong Kong, Singapore, Korea, and Taiwan collectively were investing $21.2 billion in China. Japan was investing an additional $1.3 billion. A year later, those numbers had risen to $24.9 billion and $2 billion, respectively.[83] Then in 1994, President Jiang Zemin made a triumphal visit to several Southeast Asian countries, after which the regime rolled out the welcome mat for investments for that region as well. As noted, much of the incoming money came from ethnic Chinese, often channeled through Hong Kong and Taiwan. In 1996, about one-fifth of ASEAN's investment in East Asia, accounting for $31.2 billion, went to China.[84] In all of these ways, continued Chinese upgrading depended increasingly on foreign companies and foreign money. Like many other industrializing countries, China's economic paradigm saw huge numbers of rural residents flood into urban areas, away from agriculture and toward industry. Figure 5.1 captures the rapid rise in the number of Chinese employed in industry. Tertiary industries also saw a steep, though time-lagged, leap, as show in figure 5.2.

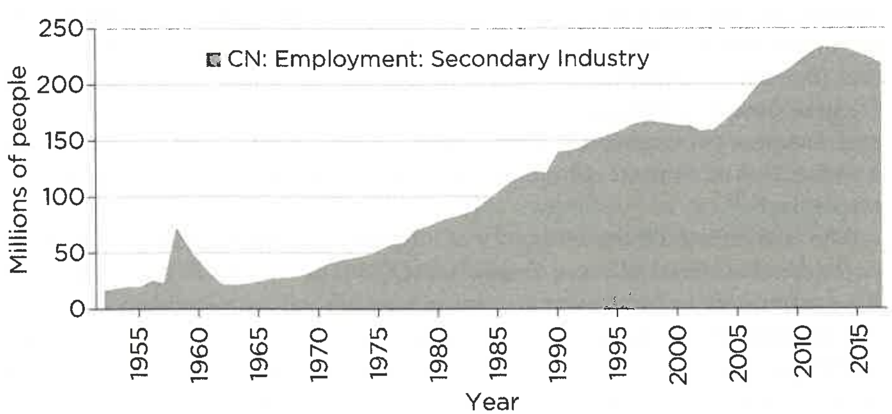

Figure 5.1 Chinese industrial employment (unit: million persons).
Source: Chinese Ministry of Human Resources and Social Security, http://english.www.gov.cn/state_council/2014/09/09/content_281474986284102.htm.

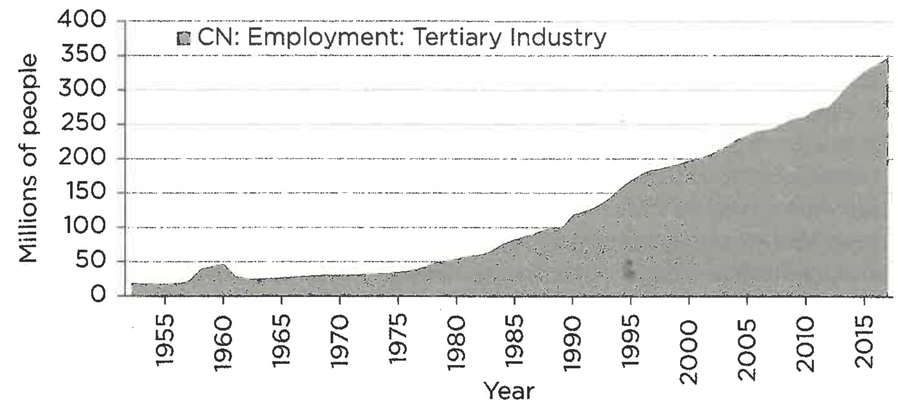

Figure 5.2 Chinese tertiary employment (unit: million persons).
Source: Chinese Ministry of Human Resources and Social Security, http://english.www.gov.cn/state_council/2014/09/09/content_281474986284102.htm.

As Boltho and Weber point out, "Using the trading skills of the Chinese diaspora in Hong Kong and Taiwan and the cheap labor and other facilities available in many of China's coastal provinces, foreign enterprises invested massively in the country."[85] Both types of investors liked the potential of the market, the centrality of China within a rapidly expanding region, and the opportunity to avoid the difficulties associated with gaining similar access in countries such as Japan.

By the first few years of the twenty-first century, the country's economic paradigm had catapulted China into a position as the world's second largest destination for foreign direct investment. The central government erected few formal barriers to such investment, however, a valuable magnet for the inflow was the autonomy given to localities over their own industrial development. Regions competed vigorously to attract foreign capital.[86] Furthermore, local politicians and bureaucrats used their official positions to become entrepreneurs, triggering a process that Nee and Opper label "capitalism from below."[87] These new local entrepreneurs had an unambiguous stake in sustaining the overall political structures from which they so demonstrably benefited, while at the same time national officials effectively injected market incentives into the economy as a whole. State and market advanced together.[88]

Membership in the WTO had required a substantial liberalization of domestic policies affecting foreign imports. In 1982, tariff rates had averaged a quite high 56 percent. A host of less visible but countervailing nontariff barriers (NTBs) reinforced these tariffs. The latter included explicit quotas, import licenses, registration requirements, import substitution lists, restricted trading rights, tendering requirements, and the like. All tipped the scales in favor of domestic producers over foreign competitors. By 2001, just before China's entry into the WTO officials slashed tariff rates to one-quarter that level, or about 15 percent.[89] By early 2004, these were down to 11 percent. In addition, only about 10 percent of total tariff lines remained subject to NTBs and the share of imported goods subject to such restrictions fell from 90 percent in 1980 to 11 percent in 1998.[90] Exports subject to licensing and quotas fell from a peak of 235 in 1991 to 50 products in 2000.[91]

Central to the local dynamism thus created were so-called township and village enterprises (TVEs). Most began between 1984 and 1997; it was through these TVEs that China's initial growth spurt in manufacturing began. As noted, local authorities competed to attract foreign investment, while both private firms and SOEs vied for start-up capital from local authorities. The shared goal was the upgrading and diversification of production to generate more domestically and globally competitive manufacturing. Spurred by the combination of agricultural reforms and the generation of local industry, including the TVEs, peasants moved off the land, affording firms vast pools of low-cost labor, a combined process that Susan Shirk labeled "playing to the provinces."[92] By the end of the 1980s, the TVEs accounted for a quarter of industrial production, and brought in around a third of China's foreign exchange earnings.[93]

Important as the TVEs were to jump-starting China's industrial modernization, most of them remained small, undercapitalized, and localized. Their contribution to the upgrading of China's strategic industries was limited.[94] Far greater contributions came with the creation of Special Economic Zones (SEZs) initially situated along the southern coast of China and proximate to ethnic Chinese investors from Hong Kong, Taiwan, and Southeast Asia. These zones offered tax relief and other incentives designed to attract FDI. The goal was to produce goods for export that could earn foreign exchange. Like the processes that propelled improvements in agriculture, the SEZs afforded similar testing and transitional examples of industrial production.[95]

The earliest SEZs were those created in 1979 in Guangdong and Fujian; these eventually expanded to include fourteen coastal cities and the island of Hainan in 1984, and then to three coastal river deltas in 1985. Local economies flourished, while the country as a whole gained access to valuable foreign technology and managerial know-how.[96] During the 1980s and 1990s, policymakers allowed private domestic and foreign businesses to enter the majority of Chinese economic sectors. Where there were no barriers to entry, private businesses quickly outcompeted SOEs and became the largest component of the Chinese economy, most notably in manufacturing. State firms nonetheless remained important in sectors protected by rigid entry barriers.[97]

The combination of localization, profit seeking, and pragmatism was central to China's economic paradigm. State planning by no means evaporated; however, instead of state plans aimed at comprehensive inclusion of all facets of the national economy, diverse shoots of market competitiveness gradually blossomed within limited geographical areas. These complemented central planning rather than challenging the principle of top-down control, in which numerous state and party officials remained politically and ideologically invested.[98] Local experiments advanced in parallel with state plans; state planning coexisted with greater marketization. The combination ensured an acceptance of ideological compatibility and party-state control, assuredly reducing the likelihood of sharp political pushback.

Private entrepreneurship was an increasingly important component in the paradigm. Indeed, Nicholas Lardy demonstrates that real profits and growth in China increasingly come from the introduction of market mechanisms and the reduction of the centrality of SOEs. The most important source of investment capital eventually became the retained earnings of firms, followed only then by bank credit. Market competitiveness had delivered larger retained earnings to China's most productive firms and these were therefore able to grow even more quickly using their own rather than state or foreign capital. Yet rather than functioning independently of state institutions, private entrepreneurs fused with them through membership in the CCP. To be sure, the importance of private business in the economic paradigm did not reflect any prominence for laissez-faire economic liberalization or complete privatization.[99]

The dominant economic paradigm always retained heavy doses of state direction, even as it underwent reforms. Thus, following Deng's spring 1992 southern tour where he visited a number of the more successful SEZs, the state role in enhancing such zones increased. Further acceleration followed in the late 1990s when Zhu Rongji, sought to rectify what had become a "landscape filled with a wild assortment of disconnected provincial and local projects without any central nervous system to guide the process."[100] He led a cast of technocrats in reestablishing stronger state direction by centralizing the fiscal and financial systems while streamlining and strengthening the state sector.[101]

Zhu worked continually to boost the strength and authority of government institutions.[102] Reflecting on the Asian financial crisis, he concluded that the main problem in the countries most damaged was their weak banking systems and highly leveraged industrial investment. Their failure to respond effectively to global financial swings reinforced his instincts that state institutions needed to speed up financial reforms so that the Chinese banking system, at the time quite similar to those of the most devastated countries, would avoid comparable vulnerabilities.[103] His financial reform included draconian measures aimed at eliminating irregularities and preventing the emergence of speculative bubbles.[104] Included were reforms of the People's Bank of China that inserted politically powerful but technically competent lieutenants into key posts. In this, they had the advantage of formal institutions that retained the highly authoritarian organizational principles of the Communist Party and its dominance in state institutions.[105]

Recentralization of the fiscal and financial systems strengthened state control. So did a revised tax system requiring all local taxes to flow first through Beijing and only then to return to the localities—not surprisingly after the central government had taken its cut. National government revenue increased by 20 percent and local authorities scrambled to find more proximate sources of investment and industrial dynamism. Fiscal policies continued to ensure balanced or overbalanced national budgets that eschewed what was portrayed as reckless public spending or even systematic deficits. Monetary policies and exchange rates remained state controlled rather than market determined, with exchange rates manipulated to favor exporters over importers.

In keeping with the moves toward privatization and reduced state reliance on SOEs, the latter underwent a major transformation involving nearly eighty thousand SOEs. Operational autonomy was granted to SOEs from 1979 to 1986, followed by delegation of authority to managers from 1987 to 1992. The basic principle driving these SOE reforms was *zhuada fangxiao*—"grasp the big, let go of the small."[106] Smaller and less efficient SOEs merged, shed excess workers, and either became more efficient and competitive or vanished. In the process, the survivors reduced their dependence on state ownership and support.

These smaller SOEs had to perform more in accord with market rather than political logic, operating on hard budgets and strict top-down accountability. Not until 1997, nearly two decades after reforms began, were the bulk of them sold off, merged, or closed.[107] The SOEs ultimately shed 45 million jobs, shattering the long-revered employee protection of the iron rice bowl., i.e. lifetime economic security. Between 1978 and 1993, the SOE share of industrial output had dropped from 78 percent to 43 percent; however, reflecting their role in job retention, their share of employment had only fallen from 75 percent to around 60 percent.[108]

In 2003, following admission to the WTO, the party-state nonetheless established institutions that moved in opposition to the presumed WTO liberalization and gave it tighter and more efficient control over the management of giant SOEs, allocation of subsidies, enforcement of regulations, and approval of investments. Variously dubbed "state capitalism," "techno-nationalism," and "China Inc.,"[109] the shifts allowed the private sector to remain vibrant but expanded the pervasiveness of party-state interventions. Foreign firms that had once been welcomed increasingly fell victim to a bewildering array of obstacles and industrial policies designed to promote and protect indigenous competitors favored by the party-state.[110]

Initially, the ownership structure in China had moved from state or collective firms producing most economic output to private firms accounting for roughly two-thirds of total output.[111] As FDI flowed into many smaller SOEs and private firms, the larger SOEs consolidated, creating even bigger, more capital-intensive and internationally competitive enterprise groups (*qiye jituan*) as the bedrock of the economy. Most gained increasingly political roles, playing enhanced roles in advancing Chinese competitiveness in innovative technologies, becoming national champions, and serving as macroeconomic stabilizers—able to increase investment when growth slows.[112]

These SOEs continued to dominate "strategically important sectors," defined as "the vital arteries of the national economy . . . essential to national security."[113] These included armaments, electrical power and distribution, oil and chemicals, telecommunications, coal, aviation, and shipping, which accounted for three-quarters of SOE assets and 79 percent of their profits.[114] State ownership conversely is minuscule in retail, restaurants, and lodging. Yet many of these large SOEs remained unprofitable, with the result that a considerable portion of Chinese state capital continued to flow disproportionately to loss-making, often obsolete firms; unviable agricultural enterprises; and regions left disadvantaged by market-oriented reforms.[115]

The large conglomerates became the major recipients of state capital and are essential instruments in ensuring that integral and high value–added sectors of the economy avoid capture by foreign investors. In addition, the state retains a dominant position in the banking sector and equity markets. The result is an economic paradigm increasingly anchored in a complex amalgam of state ownership and control in certain sectors functioning next to numerous sectors where marketization and enmeshment in globalized networks of production and finance prevail.[116] Yet by the mid-2010s, the mixture allowed the party-state–dominated regime to retain control over the economy's key pillars.[117]

This was clear in the aftermath of the global financial crisis of 2008–2009. Responding to G-20 efforts to keep global markets afloat, Chinese officials injected vast sums into the economy as the nation's contributory stimulus to global growth and recovery, gaining China foreign plaudits for its support of the global commons.[118] Yet such domestic expansion rested heavily on a further infusion of state monies into the large, state-favored SOEs in critical industrial sectors, and a corresponding decline in the official emphasis on privatization, liberalization, and market-led reforms, all at odds with the global liberal order.[119]

In sum, the economic paradigm moved China from being a closed economy in the mid-1970s to the world's largest trading nation. Its share of the global export market ballooned from about 2 percent in the early 1980s to 20 percent in 2020. China also complimented its earlier policy of "bringing in" FDI to being sufficiently flush with capital to allow for a "going out" through its own overseas investments, starting in the mid-1990s.[120] It became one of the world's primary sources of investment capital. At the microlevel, numerous Chinese companies also became globally successful. In late 2018, China had nine of the twenty largest companies in the world—Alibaba, Tencent, Ant Financial, Baidu, Xiaomi, Didi, JD.com, Meituan, and Toutiao—while the United States had eleven. Twenty years earlier, China had none.[121]

An important point in this successful transformation, however, is the extent to which the Chinese regime has fostered an economic paradigm aimed at ensuring regime continuity and endeavoring to ensure that Chinese firms, both public and private, retain substantial portions of the expanding array of more advanced technologies and hence a larger share of the benefits of national GDP growth. State controls thus remain dominant in the banking sector and equity markets. Equally, the party-state has injected vast sums of public money into next-generation technologies, from artificial intelligence to solar power to electric cars, while government financial injections into SOEs have led to their resurgence in key sectors of the economy. Foreign firms, consequently, have often faced rising barriers against equal treatment with domestic firms. Two 2015 national programs are indicative of that thrust: "Made in China, 2025,"[122] and Internet Plus. The long-term goal is to ensure that Chinese-owned entities, most with close ties to the party-state, gain dominance in the technology and manufacture of pivotal sectors and high value–added products in the global marketplace.

China has thus managed to incorporate significant elements of truly multinational production while carrying out an extensive economic transition.[123] The successful economic paradigm has fed back to bolster the Chinese regime, and especially the party-state, at times enhancing authoritarian political controls.[124] Indeed, the party-state has retained, and in fact clawed back, substantial shares of the rapidly expanding national growth. This combination reduces the likelihood that China will become stuck in the middle-income trap, instead positioning it for continued growth and steady climbs within the global production hierarchy.

Chapter 6

Regimes and the Regional Order

The previous chapters examined the interplay between external and domestic alignments in an array of East Asian regimes. The first three chapters analyzed distinct clusters of regimes sharing key similarities in their configurations of state institutions, socioeconomic forces, and external influences. They underscored as well how the regimes in each cluster also shared analogous economic policy paradigms.

Central were the ways external power configurations reinforced or challenged domestic sociopolitical arrangements, an approach congruent with studies of the "second image reversed,"[1] that is, analyses of external influences on domestic political economies. Left unaddressed were the ways the Asia-Pacific region has reflected changing mixtures of domestic regime types, and their shifting interplay over time. The goal of this final chapter is to reverse the regime mirror to analyze the ways regimes and their policy paradigms have shaped variations in the regional order of the Asia-Pacific.

The central argument is that as varying combinations of regimes strengthened or weakened, the regional order fluctuated synchronistically.[2] Three discrete, albeit overlapping, phases of regional order stand out. The first was the regional order prevailing during Cold War bipolarity; its defining characteristic was sharp-edged security and economic confrontation between two hardened blocs. The regimes and policies identified in chapters 1, 2, 3, and 5 were all in their embryonic stages of consolidation. As such, they predominantly focused inward, and superpower rivalries were the principal shapers of regional relations. Even though many regimes, particularly in Southeast Asia, endeavored to remain neutral in the bipolar clash, the domestic components of most of the East Asian regimes nonetheless reflected large swaths of the bipolar order.

A second order subsequently took shape, characterized by a reduction in the centrality of hard security clashes and an amplification of economic interdependence. The developmental and ersatz regimes, along with a reforming