Performance Legitimacy, State Autonomy and China’s Economic Miracle

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Abstract

All the theories that explain post-Mao China’s economic success tend to attribute it to one or several “successful” policies or institutions of the Chinese government, or to account for the success from economic perspectives. This article argues that the success of the Chinese economy relies not just on the Chinese state’s economic policy but also on its social policies. Moreover, China’s economic success does not merely lie in the effectiveness of any single economic or social policy or institution, but also in the state’s capacity to make a policy shift when it faces the negative unintended consequences of its earlier policies. The Chinese state is compelled to make policy shifts quickly because performance constitutes the primary base of its legitimacy, and the Chinese state is able to make policy shifts because it enjoys a high level of autonomy inherited from China’s past. China’s economic development follows no fixed policies and relies on no stable institutions, and there is no Chinese model or “Beijing consensus” that can be constructed to explain its success.
The Chinese economy has grown 9.7% annually since 1978, and the size of China’s GDP has jumped from the 8th place in the world in 1980 to the 2nd place in 2010. After the Second World War, no other states except for the East Asian “four small dragons” have sustained a similar, high speed of economic development for so long. In comparison with the four small dragons, China is characterized by a much larger population and huge regional disparities in geography, resource and human capital. We would think that, in comparison with the four small dragons, it would be much harder for China to achieve a durable economic development, but China did. As of today, the living standard of the Chinese in coastal regions has already reached or even surpassed the level of many developed nations, and China is also predicted to be able to maintain a relatively high level of economic development for many years to come. Back in the 1980s and early 1990s, many countries adopted neoliberal economic development policies, but today their experiences have all become hard lessons. On the other hand, the Chinese economy has developed quickly under an authoritarian regime with a strong capacity in manipulating economic activities. The Chinese way of achieving economic success has, thus, been labeled as “Chinese models” or “Beijing consensus”.

1 国家统计局：《统计公报》，2010年，see also: http://www.stats.gov.cn.
2 Robert Fogel, “Why China’s Economy will Grow to $123 Trillion by 2040?” Foreign Policy, January 4, 2010; 林毅夫：《中国经济保持20年高速增长没问题》，凤凰网专稿，July 18, 2011, see http://pptv.ifeng.com/program/wdsz/detail_2011_07/18/7762014_0.shtml.
Theories that have been proposed to explain China’s successful economic development vary greatly, but they all tend to attribute the success to good government policies and institutional designs. They differ only in identifying specific government policies or institutional designs that have actually contributed to China’s economic miracle. On the one hand, neoliberal economists believe that China has had a successful economic development largely thanks to the government’s market-oriented reform policies, especially the establishment of price mechanism and the promotion of property rights. On the other hand, sociologists and political scientists tend to argue that China has had a successful economic development because of the autonomy that the Chinese state has enjoyed, which allows China’s top leaders to adopt policies that may not be in line with the market principles but are conducive to a sustainable economic development.

This article argues that, while the Chinese government has adopted many policies aiming at improving its economic performance, none of these policies has not at the same time generated unintended consequences inimical to the economy’s long-term performance. Judging by the original intention of the policy makers, none of these policies can be regarded as successful. What is behind China’s economic success are not specific state policies, but the autonomy of the Chinese state as well as the existence of societal pressure that has effectively checked the state power. The autonomy allows the state to adjust its policies and implement new policies and institutional designs once the economy faces problems, while the societal pressure compels the state to use its autonomy prudently, so as not to make the disastrous mistakes that the Chinese state had repeatedly made during and before the Cultural Revolution (1966-1976). The Chinese state derives its autonomy from some historical legacies, and the autonomous power of the Chinese state is constrained by the state’s performance-based legitimation. We refer to this
particular kind of state autonomy as “bounded autonomy” and argue that the combination of state autonomy and performance legitimacy is the key to China’s economic success.

Compared with other theories, the argument proposed in this article explains not only China’s quick economic development, but also other puzzles untouched by rivaling theories, such as: Why did the Chinese reform first start in the cities and coastal regions? But, why did the reform have its initial success in rural areas instead? Why has leftist ideology revived in China in recent years? Why have social policy-oriented reforms become the main thrust of reforms in China in the last ten years? What are the logics behind the Chinese state’s reform policies and their changes? And why are China’s quick economic development and rise of living standard unable to alleviate the Chinese government’s anxiety about political instability?

This article proceeds as follows: It first provides a critical assessment on the current theories that attempt to explain China’s success and summarize the major argument of the present study. It then moves on to elaborate on the two key terms used in the analysis of this article – state legitimacy and bounded autonomy. Finally, after briefly discussing some of the positive legacies that the Chinese past has left for China’s current economic success, we will present a brief account on the actual process of China’s economic reform based on the theoretical framework of this article.

**Theoretical background**

Theories that explain China’s economic success fall in between two opposite general theories of economic development - the neoliberal perspective and the state-centered argument. Hardcore neoliberal economists believe that China has had a successful economic development
because the Chinese state has embraced market-oriented reforms, and because the Chinese state has installed a series of institutions (i.e., property rights, rule of law and the freedom of contract) vital for a healthy economy. It is worth noting that, while neoliberal economists stress the importance of a free market, their theory also calls for a strong state. A strong state is needed to establish price mechanism, property rights and rule of law in places where such institutions were previously absent. A strong state is also needed to push forward reforms against the interest of powerful social groups.

The state-centered theorists do not necessarily against the market. Yet, to them, the key to the success of a country’s economic development lies in the existence of a “developmental state”, that is, a state with strong capacity to penetrate the society and great autonomy to free itself from the interest of powerful social groups. Along this line, Yang Yao, inspired by

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5 See 茅于轼：《中国改革的制度观》，《改革与战略》1994年第6期;
张曙光：《经济增长和国家兴衰》，《读书》1996年第9期;
盛洪：《科斯教授和新制度经济学》，《天津社会科学》1993年第4期;
盛洪：《关于中国市场化改革的过渡过程的研究》，《经济研究》1996年第1期;
张维迎：《从现代企业理论看中国国有企业的改革》，《改革与战略》1994年第6期;
张维迎：《企业家的企业家——契约理论》，上海：上海三联书店和上海人民出版社，1995年;
张维迎：《中国改革的逻辑》，《当代财经》2009年第1期;
周其仁：《中国农村改革：国家和所有权关系的变化——一个经济制度变迁史的回顾》，《中国社会科学季刊》（香港）1994年夏季卷;
周其仁：《中国农村改革：国家和所有权关系的变化（下）——一个经济制度变迁史的回顾》，《管理世界》1995年第4期.


Olson’s concept of “encompassing organizations”,\(^8\) argues that China has a successful economic development largely because the Chinese government is able to free itself from the control of the major interest groups.\(^9\) Jean Oi and Andrew Walder develop the concepts “local state corporatism” and “local governments as industrial firms”, and argue that Chinese local governments’ heavy involvement in local economic activities and all-round support to local industries is the key to China’s economic success.\(^10\) Li-an Zhou argues that the Chinese central government’s GDP-centered system for evaluating official performance has compelled the local cadres to promote the local economy in order for themselves to be promoted, and that China’s economic success is attributable not to economic incentive but to political incentive.\(^11\)

Some scholars explain China’s economic development by combining both the neoliberal logic and state-centered perspectives. Yingyi Qian and Susan Shirk attribute China’s economic success to an institutional arrangement that they label as “fiscal federation”. Their logic is as follows: the fiscal responsibility system installed in the 1980s allowed a local government to retain the revenues beyond a predetermined quota; the local governments thus became very motivated in promoting the local businesses and would do whatever they could to boost local

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9 姚洋：《中性政府与中国的经济奇迹》，《二十一世纪评论》2008年6月号，第107期；贺大兴、姚洋：《社会平等，中性政府与中国经济增长》，《经济研究》2011年第1期。


11 周黎安：《晋升博弈中政府官员的激励与合作：兼论我国地方保护主义和重复建设问题长期存在的原因》, 《经济研究》2004年第6期;
Steven Cheung argues that the keen competition among China’s county-level governments is an important feature of the Chinese political system, and is the key to China’s economic success.\footnote{12}

The above theories do have one thing in common, that is, they all attribute China’s economic success to particular state policies or institutional designs. They differ only on the issue of which state policy or state intervention is the key. I must stress that each of the above theories has certain validity. Who can deny the logic that the establishment of the price mechanism and institutions that support it are crucial for a sustainable economic development? Yet, once we hold too strong a faith on this neoliberal logic, we would find it hard to explain the following reality: In China, government manipulation of the market is a commonplace, and transactional cost of economic activities are always very high, but this has not in any way slowed down the growth of the Chinese economy. Those theories that place a great emphasis on the role of Chinese state in economic development also have their purchases. Who can deny the significant roles that some crucial government policies (such as open-door for foreign ideas and investment, and the establishment of price mechanism) and the government’s capacity to implement these policies have played in China’s economic success? Who can say no to the argument that some institutions that have been put in place by the Chinese government (such as the fiscal responsibility system, cadre assessment system, leadership responsibility system) have

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周黎安：《中国地方官员的晋升锦标赛模式研究》，《经济研究》2007年第7期；
周黎安：《转型中的地方政府：官员激励与治理》，上海：格致出版社，2008年。
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张五常：《中国的经济制度》，北京：中信出版社，2009年。
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encouraged or compelled China’s local governments to promote the local economy, and are playing or have played positive roles in China’s economic development? On the other hand, these scholars have neglected the fact that most reform measures of the Chinese government ended up in failure, and even the successful ones have given rise to negative unintended consequences that can be detrimental to China’s further economic success, so that the central government could not ignore.¹⁴

We argue that China’s economic success never lies in any of the reform measures, but in the Chinese government’s autonomy and capacity to free itself from the ideological restrictions and interest group politics and to implement new policies when the negative consequences of the earlier policies loom large. Our argument is actually close to Yang Yao’s theory because we both stress the role of state autonomy in China’s economic development.¹⁵ Yet, Yao’s theory gives no importance on the Chinese government frequent changes of policies in China’s economic success. It also gives no clue on why the Chinese government is able to maintain such autonomy, and why the Chinese state has not used the autonomy in a wrong way? The latter question is particularly important because history has presented ample examples that when an authoritarian regime possesses great autonomy, it is more likely to use the autonomy in detrimental ways. The disasters that the Maoist regime had brought to the Chinese are examples to this point.

We argue that, in explaining China’s economic success, the earlier theories have all neglected the crucial roles that China’s “historical dividend” and societal forces have played in

¹⁴ For instance in the 1980s and 1990s, labor intensive foreign companies in Guangdong, Fujian and Zhejiang absorbed a huge amount of China’s surplus labor and greatly contributed to China’s economic development, but now these industries are the sources of pollution, unemployment, China’s trade war with the US and frequent workers’ protests. Also, when the Chinese government pushed forward the housing reform in 1998, its original intention was to improve urban Chinese’s living condition. Yet, in a few years after the rise of housing market, while the housing condition in China is indeed hugely improved, Chinese now run into the problem of unable to buy a house at an affordable price.
the economic development. By “historical dividend”, we mean some positive unintended consequences derived from China’s historical legacies and Maoist ultra-leftist practices. More specifically, China has a strong state tradition, a tradition that bases state legitimacy on good government performance, and a culture that facilitates the forging of a modern national identity. In other words, while most developing countries needed to pass the hurdles of nation-building and state-building before a successful economic development becomes even possible, China has only the economic development as its main task. Moreover, the ultra-leftist policies of China during the Mao era, in particular the calamitous Great Leap Forward (1958-1960) and the Cultural Revolution (1966-1976), had led to a quick erosion of the regime’s ideological legitimacy within the time of a generation. By the late 1970s, while most communist veterans were still alive, the government had to resort to market-oriented reform to survive. In other words, when the reform started, the Chinese government still possessed a high level of autonomy and infrastructural capacity typical of a revolutionary regime, even though it was compelled to use its autonomy and capacity to push through the reforms, to bring better life to the people, in order to enhance the regime’s eroded legitimacy.

Yet, performance-based legitimacy has the following characteristic: its promises are too concrete and it will continuously raise the people’ expectations. Once a state is no longer able to perform as well as it used to be, it will immediately face a legitimacy crisis. In the case of China, unsuccessful reform measures induce massive grievances, whereas successful reforms are always accompanied by negative unintended consequences. Successful reforms not only improve
people’s lives, but also change the ways people think and raise people’s expectations and demands. Therefore, although the Chinese economy has had a successful development and Chinese lives have been tremendously improving, the pressure faced by the Chinese government has never for a moment eased. Such pressure forces the Chinese government to use the autonomy it possesses to implement ever new reforms to enhance its performance. These reforms may have fostered economic development, but they always also induce more pressure from the society. The social mechanisms associated with performance legitimacy and bounded autonomy have thus propelled a quick development of the Chinese economy.17

State Legitimacy and State Autonomy

State legitimacy and state autonomy are two key concepts of this article. State has always a certain level of autonomy in decision making. State autonomy is first derived from some unique functions (e.g., territorial defense and law making) that the other types of organizations cannot effectively provide.18 Modern states also derive their autonomy from many elements that constitute a state, such as the state bureaucracy, army and police, the state’s capacity to monopolize information, materials and monetary resources.19 State autonomy is crucial for a state to adopt policies against societal interest and pressure.

17 Peter Evans developed the concept “embedded autonomy” to explain the economic success in Taiwan and South Korea. The concept “bounded autonomy” used in this article differs from Evans’ idea “embedded autonomy” in the following sense: Embedded autonomy points to the autonomous power of the state as well as the state’s capacity to penetrate into the society, but it does not tell us why the state would use the autonomy and capacity in ways beneficial to a country’s economic development. The concept “bounded autonomy” used in this article, however, emphasizes not only the importance of state autonomy, but also the importance to have the state power to be checked by some kind of social forces. See Peter Evans, Embedded Autonomy: States and Industrial Transformation, Princeton, N.J.: Princeton University Press, 1995; Dingxin Zhao and John A. Hall, “State Power and Patterns of Late Development: Resolving the Crisis of the Sociology of Development,” Sociology, vol.28, no.1, 1994, pp. 211-30.
However, there is no guarantee that a state will use its autonomous power to benefit the people. The Chinese state during Mao’s era, for example, had an extremely high level of autonomy, but it was exactly in that period that the state adopted policies that had brought the Chinese decades of hardship. To ensure that a state would use its autonomous power to good ends, such power much be checked and balanced by some kind of societal forces. Therefore, Zhao and Hall have proposed the concept of “bounded autonomy” and argued that it is most crucial for a country to have a successful economic development.20 A state’s autonomous power can be checked and balanced by multiple forces. Competitive election, elite factionalism, interest group politics, procedure-based decision-making, and freedom of news reports are the usual candidates. We argue in this article that a state’s autonomous power can also be effectively constrained by the sources of state legitimacy. The reason behind China’s economic success is actually a very simple one: the Chinese state enjoys strong autonomy and its autonomy is seriously constrained not by various kinds of local interests but by the regime’s performance-based legitimacy.

To rule effectively, state power must be seen as legitimate by both the rulers and the ruled. State legitimacy has been examined from two different perspectives. The first is to analyze the legitimacy of the state from the perception of the people. Lipset states that legitimacy “involves the capacity of the system [state] to engender and maintain the belief that the existing political institutions are the most appropriate one for the society.”21 Linz defines legitimacy as “the belief that in spite of shortcomings and failures, the political institutions are better than

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others that might be established and therefore can demand obedience.

Critical theorists challenge this understanding of state legitimacy by arguing that people’s beliefs could just be the product of false consciousness. Accordingly, they attack the Western political system and propose their visions of a better tomorrow. Critical theorists’ analysis of state legitimacy can be very penetrating. At the same time, such analysis also tends to be elitist and arrogant, producing conclusions that are often empirically unverifiable, and in some cases naively wrong. The discussion of state legitimacy in this article follows the first perspective.

Legitimacy became a central concept in sociological and political analysis after Weber’s formulation. Weber believes that habit, affection and rational calculation are three bases of human compliance. Accordingly, he proposes three idealypical aspects of legitimacy as the basis of state power: A state enjoys traditional legitimacy when its power is seen by the people as being inherited or always existent. A state has charismatic legitimacy when the head of the state is perceived by the people as having exceptional quality by virtue of some kinds of mystical experiences and personal qualities. Finally, a state possesses legal legitimacy when the power of the state is derived from a set of judicial and administrative principles that bind all members of a society.

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the power of the state, it immediately leads to two problems. First, Weber’s classification is static, while any relationships of authority in real life are dynamic and interactive. People’s understanding of state legitimacy shapes the way people interact with the state, and such pattern of interaction will in turn shape people’s perception of the nature and sources of state legitimacy. Second, Weber’s ideal type also completely separates the emotional and rational aspects of human perception, but in real life people’s perception of state legitimacy is always a mixture of the two. For instance, in Chinese history, the emperor was legitimized as the “Son of Heaven”, but if he was unable to deliver some basic public goods such as flood and natural disaster prevention and local security, the emperor’s rule would be seriously challenged. The same is also true for a charismatic leader. People follow a charismatic leader usually out of a mix of two purposes, adoration and a hope to be better awarded. Since Weber’s classification has neglected the dynamic aspect of authoritative relations and isolated emotional and rational bases of authoritative relations, it is very hard to apply Weber’s ideal types in empirical analysis.

In this article, the sources of state legitimacy are not classified according to people’s perception of the state power, but the ways in which state power can be justified: by a commonly accepted leader selection procedure, by the services that a state is able to provide, and by a promise to bring people a better future. Accordingly, we identify legal-electoral, ideological, and performance as three bases of state legitimacy.

A state is based on legal-electoral legitimacy when it takes laws as binding principles for all social groups including the state elite themselves, and when top leaders are popularly elected on

a regular basis. Ideological legitimacy means that a state's right to rule is justified by a certain value system in the forms of tradition, religion and political philosophy. Performance legitimacy means that a state's right to rule is justified by its economic and/or moral performance, and by the state’s capacity of territorial defense.

Weber’s original formulation did not include the performance aspect of state legitimacy. Among Weberians, Lipset has singularly emphasized the importance of state performance to a regime’s stability. Yet, he also believes that state performance should not be seen in legitimacy terms because “effectiveness is primarily instrumental, legitimacy is evaluative.” To us, however, the evaluative process is an essential part of performance legitimacy because people naturally judge the performance of the state in ways similar to their assessment of state legitimacy based on the other criteria. The only difference lies in the basis for conducting such an evaluation. In short, the legal-electoral legitimacy of a state brings into play a kind of evaluation process involving theorized instrumental rationality (e.g., instrumental rationality assisted by formal/theoretical reasoning). The ideological legitimacy of a state leads to value-based evaluation and rationality. Finally, the performance legitimacy of a state encourages the


28 Since legal-electoral legitimacy has democracy as its ideological base one may suppose that there are similarities between legal-electoral and ideological legitimacy. However, they are different in two aspects. First, democracy promises only a procedure to select leaders, not a concrete future. Most important, in my definition legal-electoral legitimacy emphasizes procedure, not ideology. Although legal-electoral legitimacy can be justified by democratic doctrines, over time it is the commonly accepted procedure of leadership selection, not the value system, that legitimizes such a state. I want to stress that stability is an important feature of legal-electoral legitimacy. Since election itself constitutes the basis of this form of legitimacy, a government can rule such a society without a grand ideology, and policy mistakes and scandals can lead to governmental change without a legitimacy crisis. In this system, elite conflicts and electoral changes still systematically provide opportunities to political outsiders, which lead to conflicting opening of society or democratic consolidation (Rueschemeyer, Stephens and Stephens 1992). However, this extension of pluralism encourages individuals to organize themselves on a sectional or sectoral basis that further lowers the possibilities of mobilization on the national level. Therefore, if we treat Western electoral democracy as a culture, its "hegemony" is pervasive.

development of a kind of pragmatic rationality (e.g., instrumental rationality assisted by common sense rather than by formal/theoretical thinking). Performance legitimacy is irreducible to the other two sources of state legitimacy.

It should be stressed again that all three sources of state legitimacy that we have defined are ideal types. No state will base its survival only on a single source. Nevertheless, in one country at a particular time, one source of legitimacy tends to dominate, which defines the nature of a state. This article argues that ever since the Chinese state launched the reform in the late 1970s, performance has increasingly become the primary basis of state legitimacy, and this nature of the Chinese state is crucial for us to understand not only China’s economic success, but also many other aspects of Chinese society.

**Historical “Dividend”**

The rise of nation state and capitalism define what we now call the age of modernity.30 These two historical processes are related in the sense that the solid foundation of nation state (i.e., a widely accepted national identity, a modern bureaucracy, and an effective infrastructural capacity for the state to penetrate the society) holds the key to sustainable economic development. If the major identities of a country are local rather than national or if the major identity groups in a country are engaged in an uncompromising struggle, this country will be plagued with wars and other types of conflicts. Likewise, if a state does not have an effective bureaucracy, the policies of that state will lack consistency and the officials will be prone to

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corruption. No economy is going to be successful in this kind of countries, either. Historically, when a state was unable to develop a successful economy, it was often because that state’s nation-building process was considerably lagged behind.

China, however, is quite unique among the developing countries. At the beginning of the second millennium, neo-Confucian philosophy and organizations started to penetrate Chinese society. The process had greatly homogenized the Chinese culture, which allowed modern Chinese nationalists to construct a Han ethnicity with which most Chinese (over 92%) identify. Moreover, China has a long bureaucratic tradition that most other countries do not have. In comparison with most developing countries (except for the East Asian states), the task for China to build a modern nation-state is considerably easier, or in other words, economic development is the major obstacle in China’s modernization process. It is still not an easy task, however. Facing the Japanese aggression, China never had a real chance to focus on economic development before the Second World War. Subsequently, the ultra-leftist policies of Mao’s era led China into another kind of disaster. It was not until after the death of Mao that China got a real chance to develop a market-oriented economy.

Yet, even though the Maoist ultra-leftist policies brought hardships to the Chinese, they at the same time left several unintended consequences quite crucial for China’s recent economic success. For instance, the Maoist self-reliance (import substitute) economic development model gave rise in China to an industrial system that can almost produce everything, albeit with very poor qualities; the Maoist education system failed to produce its own first-rate scientists and

31 In comparison, Russian constituted only 44% of the population in the former Soviet Union.
32 This is crucial for China’s recent economic success in several ways. For instance, the factories in the Maoist time have trained a large number of quality engineers and workers. The Maoist industrial system had also given rise to a
engineers, but it prepared for China a high-quality labor force; the village industries of the Maoist era were totally infeasible economically, but Chinese farmers gained firsthand knowledge of industrial technologies through practice; millions of urban youths were sent to the countryside during the Cultural Revolution, but these miserable souls brought new ideas and ways of life to the rural Chinese. The Cultural Revolution, exactly because it was an outright disaster to the Chinese people, accelerated the decline of the Maoist ideology, fostered a shift of the primary basis of state legitimacy from the communist ideology to economic and moral performance, and compelled the Chinese state to embark on reform immediately after the death of Mao, in a time when many communist veterans were still alive and the state still retained many characteristics of a revolutionary regime. These conditions have all decisively contributed to the regime’s political stability and are positive to post-Mao China’s economic development.

Recently, some Chinese neo-leftists argue that Post-Mao China could have a successful economic development largely because the sociopolitical development of the Maoist era had laid the groundwork for the current economic breakthrough. This argument is not completely senseless. As discussed in the previous paragraph, many policies and practices of the Maoist era had some kind of positive effects on the post-Mao era economic success. Nevertheless, we must be absolutely clear that the Maoist economic model had brought hardships to the Chinese people and has no future. While some of the Maoist policies and practices had positive effects on the current economic success, they are the unintended consequences rather than the goals of the Maoist policies and practices.

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complicated industrial structure, which directed recent foreign investment into every possible direction and avoided the formation of a “dependency structure” as it was once happened in many Latin American countries.

33 甘阳：《中国道路：三十年与六十年》，《读书》2007年第6期。
China’s Road toward Economic Success – an Empirical Account

The Rise of Performance Legitimacy: 1978-84

During the Maoist era, the planned-economy model was unable to provide effective incentives for people to work harder, and the government-initiated social movements, especially the Great Leap Forward and the Cultural Revolution, brought the Chinese economy to the verge of collapse. At the time of Mao’s death in 1976, Chinese people were very unhappy and the government faced monumental pressures, especially from the urban population. This is not to say that people in rural areas endured less hardship during the Cultural Revolution. Rather, in comparison with the urban population, especially the costal urban Chinese, the rural Chinese at the time had much less education, lived in scattered villages far away from the political center, and knew much less of what was happening elsewhere. They had much less potential to articulate politicized grievances and make their voices heard by the government. Before the reform started in 1978, the urban employment situation was grim and wages had been stagnated for over 20 years; 20 million urban youths who had been sent by the state to work in the countryside during the Cultural Revolution desperately wanted to return home; many intellectuals and communist veterans who had been persecuted during and before the Cultural Revolution demanded rehabilitation.

Facing the pressures, the state restored university education and the college entrance examination, rehabilitated the cadres and intellectuals persecuted during the Cultural Revolution and the Anti-Rightist Campaign (1957-1959), loosened its control over the media and publishing, and launched the reform and open-door policy. Yet, while these policies were all embraced by

Chinese people at the time, the new problems these policies engendered actually added more pressure on the Chinese government. Briefly, once the people got more freedom, they started to criticize the ultra-leftist policies of the Cultural Revolution or even started to seek its root cause. People’s grievances against the state were not alleviated but intensified as a result. The open-door policy attracted a large number of overseas Chinese tourists from Taiwan, Hong Kong, and other parts of the world. These people not only brought into China new ways of life and ideas, but shocked their mainland Chinese relatives by the affluent life they led. The old state propaganda on the superiority of socialism over capitalism, that the Chinese had tried to believe for so long, was instantly invalidated. By and by, more and more Chinese lost their faith in the communist ideology, and the state was forced to increasingly rely on performance, especially economic performance, as the fundamental basis of state legitimacy.  

In short, while most Chinese welcomed the new government policies, what the Chinese government received in return was not applause but more and new kinds of pressure. In late 1978, the sent-down urban youths in many parts of China put on large-scale and sometimes violent protests demanding to return home. In 1979, some Beijing youths and young intellectuals staged the “Xidan Democracy Wall” movement, and the big-character posters that appeared on the walls turned increasingly critical toward the communist regime. In the late 1970s and early 1980s, young writers who had suffered during the Cultural Revolution initiated a highly critical “scar literature” movement. Finally, in places close to Hong Kong, Chinese crossed the border and escaped to Hong Kong on a massive scale.

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36 邓贤：《中国知青梦》，《当代》1992年第5期。
37 查建英，《八十年代访谈录》，北京：三联书店，2006年。
Facing the situation, the Chinese state’s response is to repress the radicals (i.e., the key leaders of the Xidan democracy wall movement) and placate the rest. Yet, the state’s main thrust was on the economic reform. In this period, the Chinese government implemented the following reform measures: 1) readjusting the industrial structure and introducing an incentive system to reward better workers; 2) introducing various kinds of management responsibility system to enhance the decision-making power of the leaders in factories, universities, and research institutes; 3) installing the fiscal responsibility system to boost the local government’s interest in local economic development; 4) establishing four special economic zones to experiment with market economy; 5) legalizing individual and household-based small-scale urban private businesses; 6) promoting the household responsibility system in rural areas.

Among Chinese officials and scholarly circles, most people now believe that the Chinese reform started in rural areas and that the reform in rural areas (i.e. the household responsibility system) was first initiated by the farmers in China’s poorest regions and then accepted by the central government. This is, however, a wrong consensus. Coase and Wang’s recent study shows that, while the household responsibility system was indeed initiated by the farmers and later legalized and promoted by the government, the reform in China started in cities not the rural areas. Yet, while most of China’s early urban reform measures ended in failure (I would add that few reform measures in China before 1992 were that successful), the household responsibility system in rural areas was a great success. The success of the household responsibility system made the Chinese government silent about China’s other early reforms and accepted the claim that China’s reform started in rural areas. Coase and Wang’s finding fits our

38 简寒: 《国企改革三十年亲历记》，上海: 上海人民出版社, 2008年。
argument well: The Chinese government had to start the reform in cities and coastal areas because these were the regions where the government faced increasingly serious challenges.

In fact, the argument that China’s reform was spontaneously initiated by farmers is almost meaningless except for its ideological correctness – it downplays the roles of the Chinese government in the reform. Yet, it is easy to imagine that, without the increasingly free political environment brought by the urban reforms, even if some farmers initiated the household responsibility system on their own, these farmers would very likely end up in jails.

We would also like to point out that the leftist mentality still had a quite strong imprint on both the Chinese officials and the people in the 1980s. Among the top Chinese officials, although most of them firmly believed that reform and open-door was the only future for China, these officials at the same time retained many conservative elements in their way of thinking. Most importantly, these officials all maintained their faith in communism and saw the communist ideology as the foundation of state legitimacy. In other words, the primacy of performance legitimacy was not yet firmly established in this period. Therefore, when the top state leaders believed that their power was seriously challenged, they always launched retaliative political campaigns, even though those campaigns never lasted long under the reform and open-door environment.41

**The Urban Reform: 1984-1989**

Chinese farmers worked very hard under the household responsibility system, and the agricultural productivity was greatly increased in this period as a result. Yet, the success of this policy carried several unintended consequences that posed problems for the state. Most
importantly, when the famers started to work hard for themselves, agricultural labor surplus immediately became an issue. Beginning in the early 1980s, more and more farmers migrated into cities to find jobs. These rural migrants competed with the urban youths as well as millions of sent-down youths who had just returned home, but China’s state-own industry at the time all faced overemployment and had no capacity for massive hiring, and new industries popularized in the 1990s, such as the private companies, foreign companies, joint-venture companies and service sectors, were just emerging in China. The rural to urban migration and the associated unemployment became a serious problem at the time.

Meanwhile, the introduction of the fiscal responsibility system weakened the central state’s taxation capacity. The market-oriented reforms induced inflation and added great burden to the Chinese who had accustomed to living in a planned economy with little inflation. On top of these, more and more Chinese intellectuals stood up to criticize the wrongdoings of the CCP (Chinese Communist Party) during the Cultural Revolution, and the whole process induced the rise of humanitarianism and liberalism (Chinese style) at odds with the state’s ideological stance.

The Chinese government implemented more reforms in order to solve the problems. In 1984, the state launched a series of more aggressive reforms aiming at enhancing the productivity of the state-owned industry, which include 1) further expanding the managerial autonomy of the state-owned enterprises, 2) installing the contract worker system to break up the “iron rice bowl”, 3) pushing further the development of the fiscal responsibility system to give more incentives to the local government to promote local businesses, 4) establishing the “dual price system”, 5) establishing more special economic zones in coastal regions (fourteen in 1984, and Hainan Province, Zhujiang Delta and Yangtze Delta were added in 1988).

41 The anti-spiritual pollution campaign in late 1983 and the anti-bourgeoisie liberalization campaign in early 1987
These reform measures opened the minds of the people, imbued the price mechanism in an otherwise rigid planned economy, built up some new institutions and accumulated experiences for the later full-scale market-oriented reforms in the 1990s. From today’s point of view, none of the above reform measures should be regarded as mistakes. Back in the late 1980s, however, these reforms not only did not reach their targeted goals, but also brought a new round of social problems. Briefly put, the dual price system in conjunction with the greatly expanded power of the managers induced official corruption of massive scales, which in part triggered the outbreak of the 1989 Student Movement and subsequently compelled the Chinese state to place “anti-corruption” and “rule of virtue” at the center of the state’s performance legitimacy. The freer economic policies that the special economic zones had enjoyed allowed the local people to smuggle everything they could and sell illegally in China. Together with the rise of private business, they allowed some poorly educated Chinese to get rich almost overnight. This aroused widespread jealousy, especially among the intellectuals and college students who otherwise regarded themselves as the elite and backbone of the society. Such grievances of the intellectuals and students constituted another major cause of the 1989 Student Movement. Most importantly, once the government no longer controlled the price of the goods that were in a severe shortage, high inflation became a serious problem. The high inflation in the late 1980s was yet another major cause of the 1989 Student Movement.42

The Chinese economy at the time did have one shining spot, namely, the rise of rural collective industry. Yet, this was not the result of state plan, but the unintended consequence of the dual price system and the fiscal responsibility system. When the Chinese government

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implemented the dual price system, its initial intention was to give freedom to those state-owned industries that were able to produce more than their quotas to buy raw materials at a higher market price. What the policy-makers did not expect was that the policy also allowed rural collective enterprises to buy the raw materials at the market price to expand their production as well. The expansion of rural collective industry was also heavily supported by the local governments because it was then the local governments’ cash cow under the fiscal responsibility system. The dual price system and the local government support together stimulated a quick rise of the rural industry enterprises.

The rise of the rural industry has been regarded by some scholars as crucial to China’s economic success. Yet, China as a whole was running into a deep crisis. By the late 1980s, “liberal” ideas emerging in the early 1980s started to take roots among more intellectuals and students. In the late 1980s, “liberal” intellectuals held a widely shared belief that successful economic development was impossible to achieve in a country without a democratic form of government. These “liberal” intellectuals also condemned Deng Xiaoping’s “cross river by touching the stone” style reform and enthusiastically praised Gorbachev’s “new thinking”. These intellectuals, thus, advocated political reforms and tried to expand their influences by giving talks in the universities, and the students who were under their influence embraced street politics.

Most importantly, the grievances of different urban groups started to converge in the late 1980s on the issues of high inflation, corruption and income disparity. Together, they triggered the rise of the 1989 Student Movement.44

43 姚洋：《中性政府：对转型期中国经济成功的一个解释》，《经济评论》2009年第3期。
The 1989 Movement was ended by bloody repression. Many reasons were behind this tragic ending, but the one that was most relevant to the argument of this article is the nature of the Chinese state. Back in the 1980s, those who held the highest power in the CCP were all communist veterans who were fighting for the revolution and still had deep faith in communism. Yet, these people also had suffered greatly during the Cultural Revolution and knew that reform and open-door was the only solution for China. From the perspective of this article, we see a great tension in the minds of these veterans: they still believed that the regime possessed ideological legitimation, but they all knew that only through enhancing the state’s performance, especially economic performance, could the regime survive. Therefore, these veterans all supported the reform, but when they felt that their power was seriously threatened, they would never hesitate to step up the upholding of the “Four Cardinal Principles” and even to resort to the use of force in dealing with opposition.\textsuperscript{45} This is why the 1989 Movement did not end up with a regime change as had happened in the former Soviet Union, but with a military crackdown. This is also why the crackdown not only did not end China’s open-door policy, but also forced the state to stage more rigorous reforms after 1992.

**Hesitation and Determination: 1989-1992**

China faced tremendous pressures from both the international and domestic fronts after the 1989 Movement. Internationally, the bloody repression was widely condemned and the Chinese government’s image in the world hit rock bottom. Domestically, although the repression ended the prolonged demonstrations and Tiananmen Square occupation, the regime’s legitimacy was greatly eroded as well. China’s top leaders were then caught in a dilemma: they knew that

\textsuperscript{45} They are the adherence to socialism, adherence to the leadership of the party, adherence to Marxism-Leninism and
China had to abandon its ultra-leftist past, but they were very afraid of losing control over the Chinese society.

To get out of the repression-induced legitimacy crisis, the state introduced military education to university students and staged a patriotic education campaign, but such state actions only intensified the people’s fear that the state was going to end the reform and bring China back to the ultra-leftist past. In 1990, Beijing students jammed the door of TOEFL testing centers and waited overnight just in order to register for the examination. The students were worried that the state was going to end the open-door policy and that they might no longer have the chance to leave China. They thus became desperate.

The top echelon of the CCP, particularly Deng Xiaoping, obviously knew the mood of their people. On May 31, 1989, when Deng met with Li Peng and Yao Yilin, he told them that “The new Chinese leaders should be new faces to Chinese and give Chinese people a clear impression that they are reformers and China has hopes under their leadership.” Obviously, even at the time when the bloody repression was about to start, Deng still held firmly the view that the future of the CCP and China hinged on whether or not China would stick to the reform and open-door policy. Therefore, even though China’s propaganda machine turned left after 1989, several important reform measures were actually implemented in this period, most prominent ones being the establishment of Shanghai’s Pudong Development District in 1990 and Shanghai and Shenzhen stock exchanges in 1991, and the acquisition of membership in the Asian Pacific Economic Cooperation (APEC) in 1991.

Mao Zedong thought, and adherence to the dictatorship of the proletariat.


Steadfast Development: 1992-2003

China was lucky in the sense that many CCP veterans, especially Deng Xiaoping, were quite savvy. Deng knew that Chinese were very unhappy after 1989 and that if China did not speed up its reforms, it would likely face a revolution or even disintegration as had happened in the former Soviet Union. Therefore, in 1992, at 88 years of age, Deng started his southern China tour and made several famous speeches to call for more radical economic reforms. Deng’s southern China tour was decisive. After the tour, top Chinese leaders all stepped out to show support, leftist propaganda disappeared in mainstream Chinese media for many years, and the Chinese state seemed to have quietly abandoned the communist ideology as the basis of state legitimacy.

Before 1992, most Chinese still had memories of what they had gone through during the Cultural Revolution, and were strongly concerned that the state was going to restore the leftist policy and bring China once again to disasters. Therefore, in the 1980s, whenever the Chinese detected leftist voices in the CCP, they became very nervous. Deng’s southern China tour brought a positive unintended consequence: Seeing that the state was promoting reforms after the 1989 incident, Chinese somehow realized that to boost government performance through reform was the only viable policy choice for the state. In a sense, Deng’s southern China tour in conjunction with the 1989 bloody repression, had actually greatly enhanced Chinese people’s trust in the state, and such trust also increased the state autonomy.

Economic reform was sped up after Deng’s southern tour. In 1992, China ended its three-year long tight monetary policy, deregulated most prices except for 89 products of strategic importance, and implemented policies to encourage the development of foreign and joint venture
companies. In 1994, the state recentralized taxation by installing a new tax sharing system. In 1995, the state legalized the bankruptcy and selling of state-owned industries (with the exception of 500 largest enterprises of strategic importance). In the Fourteenth Congress of the CCP held in the fall of 1992, the Chinese government announced for the first time that the establishment of a market economy was the goal of China’s reform. These policy changes gave rise to a commercial wave in the early and mid-1990s, during which over 20 million government officials, professors and researchers in universities and research institutions and cadres and workers in the state-owned companies quitted their jobs and went into private businesses.48

Of the new reform measures, the replacement of the fiscal responsibility system with a new tax sharing system deserves special attention. The fiscal responsibility system adopted by the Chinese government in the 1980s motivated local governments to promote local businesses and stimulated the rise of rural collective industry. At the same time, it also carried negative unintended consequences. Namely, as the local economy quickly developed, the fixed tax deals under the fiscal responsibility system allowed the local governments to retain an increasingly larger portion of the local revenues, and the central state became increasingly poor and had to borrow money from the local governments to perform certain tasks. This problem eventually prompted the central state to abolish the fiscal responsibility system and replace it by a tax sharing system, which allowed the central state take a much bigger share of the local revenue.

There are scholars who argue that the fiscal responsibility system was crucial to China’s economic success. These scholars have neglected the obvious fact that China’s economy has actually gained greater momentum after the Chinese state abandoned the fiscal responsibility system in 1994. We argue in this article that the fiscal responsibility system had its positive side

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as well as unintended consequences, so does the new tax sharing system. The success of the Chinese economy never hinges on any one of the state policies, but on the state’s autonomy to free itself from the control of the vested interest forces to implement new reform policies when the side effects of some old policies loomed large. With regard to the change of fiscal policy, the Chinese state derived its autonomy largely from the “historical dividend” – China’s long centralized state tradition had given the local governments little legal basis or means to resist the policy change even when the change would definitely hurt their interests. This, of course, is not to say that the local governments were completely passive vis-à-vis the central state’s decision. After the installation of the tax sharing system, many local governments, especially those in the poor regions, faced serious financial difficulties. This compelled the local officials to tax the farmers more heavily, and to attract outside investment and generate incomes by land sales. The new tax sharing system, therefore, greatly boosted the development of foreign and joint venture companies in China and the skyrocketing rise of China’s housing market. At the same time, it also created many local environmental problems and induced frequent land disputes, and gave rise to countless protests against the tax burden, environmental pollution, land expropriation and forced relocation.

The privatization of the state-owned industry was another reform of great historical consequence in this period.49 The reform altogether removed the Chinese state’s burden to subsidize a huge amount of small- and medium- size state-owned companies that could no longer be saved, and it was “a great leap forward” toward privatization. In the process, most of the state property was siphoned away by those Chinese who had power and connections or even by

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foreign companies. Yet, the whole process, as ugly as it was, did no harm to the overall performance of the Chinese economy because those who had taken over the state-owned enterprises were often able to use them to produce better products at lower cost. The process did, however, create a moral outcry and induced the reemergence of leftist ideologies in China. Most importantly, millions of workers in the state-owned industries lost jobs during the process of privatization. Very frequent and sometimes violent protests by the layoff workers and military veterans (who were assigned jobs in state-owned factories after demobilization but soon lost jobs as the factories closed down) became headaches that China’s central and local governments had to face for many years to come.

In this period, the rural collective industry, which has been regarded by some scholars as the key to China’s economic success, quickly declined and then disappeared. The age of rural collective industry had passed, but the Chinese economy gathered greater momentum. This again proves our argument that “the success of the Chinese economy never hinges on any one of the state policies.” Wei Pan, a Berkeley trained leftist scholar, argues that the rural collective industry collapsed largely because China’s neoliberal policy-makers at the time saw it as an obstacle to privatization and, therefore, were determined to end its existence. We would argue that, while ideology was indeed somehow behind the disappearance of the rural collective industry, it was not the main reason. Back in the 1980s, the rural collective industry was very positively regarded in China because it exhibited a greater vitality that the state-owned industry did not have. Yet, in the mid-1990s, the rural collective industry, due to its low value-added

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50 The turning point is 1998. In that year alone, about 20 million workers in the state-owned companies lost their jobs, and the state sectors were no longer the biggest employers in China after that year. See 赵晓：《竞争、公共选择与制度变迁》，中国经济研究中心讨论稿，No. C1999025，北京：北京大学出版社，2009年。 姚洋：《中性政府:对转型期中国经济成功的一个解释》，《经济评论》2009年第3期。
technology and traditional styles of management, became increasingly unable to compete with the foreign or joint ventures and even the burgeoning Chinese private companies. Another state policy was also instrumental to the disappearance of the rural collective industry: Chinese state-owned banks staged market-oriented reforms in 1993. After that, it became increasingly harder for the rural collective industry to obtain cheap loans from the state banks through its close connection with the local governments who no longer relied as much on the revenues from the rural collective industry as before due to the rise of alternative revenue sources from foreign companies, joint ventures, private businesses and even the land sales. Many rural collective enterprises bankrupted because of the discontinuation of capital flows from the state banks. What we want to stress here is that no “anti-rural collective industry conspiracy” had ever existed among China’s top decision makers at the time. China’s reform policies were never as coherent as Pan had imagined.

The reform in the 1990s was also carried out in a more “friendly” sociopolitical context: 1) The 1989 repression forced many dissidents out of China and silenced the voices of the “liberal” intellectuals. 2) The shift of political winds after Deng’s southern China tour silenced leftist voices, which means that the forces that could potentially give support to China’s underprivileged population was also silenced. 3) With the rise of the market, the lives of the Chinese people were no longer so determined by the policy of the central state as before. In other words, the social problems of China and grievances of the people to a certain degree were also localized and depoliticized. 4) Chinese were still enjoying the newly achieved affluence and had not yet developed a very strong sense of rights and entitlement as they have now. Together, these structural conditions granted the Chinese state great autonomy, minimized the “collective action

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51 潘维：《农民与市场——中国基层政权与乡镇企业》，北京：商务印书馆，2003年。
problems” induced by interest group politics or/and social protests, and contributed to the “ten golden years” of the Chinese economy.

Social Policy-oriented Development: 2003-

Yet, while the reform in the 1990s brought China a booming economy and greatly improved the living standard of the Chinese as a whole, the negative unintended consequences of the reform (including income disparities, official corruption, the collapse of the public welfare and health system, massive layoff of workers, tax burden of the farmers, land appropriation and forced relocation, environmental degradation) also developed very quickly. By the time China entered the new century, protests and riots had become a commonplace. According to the state statistics, incidents that can be regarded as collective actions reached 10,000 in 1994, 20,000 in 1998, and 40,000 in 2000. By 2005, collective action incidents had reached 87,000 occurrences. In short, by 2002, when Hu Jingtao and Wen Jiabao became China’s new leaders, the negative unintended consequences of the neoliberal reforms of the 1990s had become very serious.

It is economists’ common sense that the kind of social problems and protests mentioned above will create serious “collective action problems”, increase the production and transaction costs in economic activities, and become the hurdles for further economic development. Yet, against all these odds, the Chinese economy has still maintained a high speed of development in a time when the world economy has experienced a prolonged downturn. We argue here that what is behind China’s current high-speed economic development is not the economic policy but social policy. In the face of their problems, China’s new leaders turned their attention to social
policies aiming at easing the tensions caused by the neoliberal economic policies of the 1990s. This is the so-called “Hu-Wen New Deal”. The “new deal” has to a certain degree lowered the occupational and regional income disparities and alleviated social tension, and created a stable environment for further economic growth. On the other hand, the “new deal” has created its own unintended consequences that are now looming large.

The Hu-Wen New Deal has two legs – welfare state social policies and government spending on infrastructural projects. While the social policies have provided the “changing society” with a “political stability”, the government spending, together with a favorable environment created by China’s entry into the WTO in 2001, has sustained China’s fast-speed economic development in the last ten years.

Among the social policies that the Chinese government has implemented in the last 10 years, the following ones are particularly significant: 1) In 2003, the government began to establish a rural cooperative medical system that has by now covered most rural areas of China. 2) In 2004, the government significantly lowered the agricultural tax and started to provide subsidies for agricultural production. Afterwards, farming is no longer an unattractive business as it was in the 1990s. 3) In 2005, the government initiated an appliance subsidy program in rural areas. By now, big screen TVs, refrigerators and microwaves have become common even in China’s most remote rural areas. 4) After 2005, the government has spent heavily to support the construction of paved roads in every Chinese village. 5) In 2006, the government passed legislation to enforce nine-year free education, which has since then been rigorously

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implemented. 6) In 2007, the government passed the labor contract law, which has played a
decisive role in pushing up the wage of China’s lowest income sectors several times since then.

In the last ten years, government spending has become a major engine of China’s
economic development. The government-financed infrastructural projects, such as modern
airports and train stations, highways, railways and high-speed trains, have not only facilitated the
travel of the Chinese people, but also greatly lowered the transactional cost of business activities
and stimulated the fast development of many related industries. The government’s appliance
subsidy programs for farmers have for many years sustained the development of several related
industries while the world demands have sharply declined. Finally, capitals from various state
sectors have continuously found their way into China’s booming housing market in the last ten
years. Together with the increasingly higher demands from China’s ever expanding middle class
population, these capitals have significantly boosted the development of China’s housing market.

Yet, these new policies and developments carry their own unintended consequences as
well. The Chinese government’s new deal policies made the people increasingly reliant upon the
government. Consequently, the interest of the Chinese, rather than being expressed in the form of
interest group politics, is developed into a kind of poorly organized and emotionally charged
populist politics. In the presence of the rising tides of protests, the Chinese government has only
one effective mechanism of containment, that is, to use money to appease the people.54 This
strategy further channelizes social grievances into a kind of populist politics that is almost
impossible to be institutionalized. It is exactly for this reason that riots and protests become
widespread in China at a time when the Chinese people’s lives have actually undergone a huge
and general improvement.

54 赵鼎新：《民粹政治—中国冲突政治的走向》，《领导者》2008年2月号，总第20期。
The rise of populist politics has also created conditions for a quick reemergence of leftist ideologies in recent years, and allowed some ambitious politicians and ideologues to tap into the populist mentality of the people for personal political gain, which not only undermines the autonomy of the central state but also adds uncertainties to Chinese politics. What Bo Xilai and his intellectual followers were doing in Chongqing in the past few years, and the huge impact it has created, is very much facilitated by the populist nature of the Hu-Wen New Deal.

The government spending driven economic development has also created its own problems. In the past ten years, the government policy has greatly raised the status of large-scale state-owned firms and weakened the roles of market and private businesses in the Chinese economy. The rising state power and the power of those people who have benefited from the recent development have invited criticisms from liberal-minded intellectuals and induced massive grievances against the privileged classes. Moreover, the development of infrastructural projects has passed its peak and can no longer contribute as much GDP growth as before. China’s further economic growth depends increasingly on whether or not China is able to have a successful transition from the labor intensive, environment unfriendly development model to a capital intensive, technology-driven model of development.

China’s state revenue has increased very quickly since the mid-1990s thanks to China’s superb economic performance. However, the state started to run small budget deficits in the last couple of years due to its huge spending on social welfare provision and large-scale infrastructural projects. The Chinese government will surely face a hard time if the economy hits a major crisis. We, however, do not want to predict “the coming collapse of China”. Scholars have made this kind of “predictions” again and again based on different logics ever since the 1980s when the Chinese reform just started, but the CCP has been able to retain its power and
the Chinese economy has grown continuously. China has not developed according to those ominous predictions, largely thanks to the nature of the Chinese state: The state’s performance-based legitimacy compels the Chinese government to keep its focus on promoting economic development and makes the government very cautious in dealing with public grievances and protests, and the Chinese state’s autonomy has given the government a great capacity to launch new reforms when the negative unintended consequences of the old reform measures become apparent.

We are certain that China’s new leaders who emerge after the CCP’s Eighteenth National Congress will implement new policies to deal with current social problems. The problem, however, is that good government policies will raise people’s desire and demand and bad policies will induce state-centered grievances. Regardless of how the state actually performs, it is going to face increasingly difficult challenges. Yet, it might be hard for a linear thinker to understand that such challenges are also the very secret behind China’s economic success.

**Conclusion**

S. E. Finer has attributed the rise of the West to the existence of an unstable institutional arrangement in pre-modern European society. He argues that while the great Asian civilizations all “had reached the condition with which they were quite consciously satisfied and from which they did not wish to move,” Europe “from the fall of the Western Roman Empire” “was always restless, uncomfortable with itself”. What Finer means is that medieval European elite, namely the kings, aristocracies, bishops and later the bourgeois, could never reach a stabilized power balance and were always in a state of conflict and restlessness. By the 18th century, this kind of
restlessness had spread to all spheres of European society as never before. Modern industrial capitalism and nation state stumbled upon us exactly because of the existence of this never stabilized institutional arrangement in European history. Applying this Finerian insight to understand modern China, we can immediately see that China’s economic success lies also in the restlessness of the Chinese society in part induced by the Chinese state’s performance-based legitimacy. Performance-based state legitimacy gives the Chinese government and people a perpetual sense of crisis, on the one hand, and the Chinese society a great tension and rare kind of energy, on the other hand. This tension can lead to an economic breakthrough as well as a state breakdown.