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The Pitfalls of Reform

AN examination of China's economic performance since 1970 reveals a stark divergence from those of other socialist economies. Although growth rates in China paralleled growth rates elsewhere during the 1970s, in the 1980s the Chinese economy entered a period of accelerating growth while the other economies stagnated (see Fig. 1). After 1989, the economies of the successor states to the Soviet Union and in the former Eastern bloc contracted rapidly, while the Chinese economy continued to grow rapidly. By the late 1990s, the economies of the ex-communist states had generally stabilized. In most cases, however, these economies were only marginally larger in 2000 than they had been twenty years earlier. The Chinese economy, on the other hand, was some seven times larger than it had been two decades earlier.

The great divergence of the Chinese economy from those of the Soviet Union and Eastern Europe is surprising. First, previous attempts at limited reform had generally failed. Second, and more significant, China embraced what neoclassical economists deem the "wrong" reform strategy (slow incremental reform) rather than the "right" reform strategy (rapid, comprehensive reform).¹ According to the existing literature, China's paradoxical success with incremental reform can be explained in two different ways. On the one hand, "big bang" theorists argue that China's success was neither paradoxical nor contrary to neoclassical orthodoxy but rather the result of prior conditions. Proponents of the "evolutionary" school, on the other hand, argue that China did not adopt a "wrong" reform strategy and contend that incrementalism was actually a

¹ It bears noting that Vietnam, which adopted a Chinese-style program of incremental reforms, has also experienced strong economic growth. See Martha de Melo and Alan Gelb, "A Comparative Analysis of Twenty-Eight Transition Economies in Europe and Asia," *Post-Soviet Geography and Economics* 37, no. 5 (May 1996): 265 and David Dollar, "Macroeconomic Management and the Transition to the Market in Vietnam," *Journal of Comparative Economics* 18, no. 3 (June 1994): 357–75.

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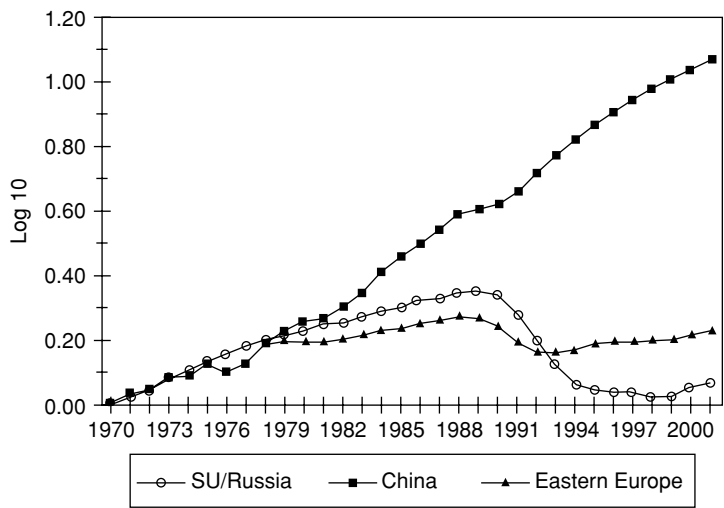


Figure 1-1. Growth in GNP.

Sources: World Bank, *World Tables 1995* and *World Development Indicators*.

Figure represents an index of growth in gross domestic product, where 1970 = 1.
Indices logged to highlight the divergent trends.

superior strategy because it allowed the Chinese economy to move from one system to another without first destroying the old system and then building an entirely new system on the rubble of the old. In this book, I will show that while both the big bang and evolutionary schools are not without considerable merit, each only partially explain why China managed to make the transition from the Maoist planned economy to an essentially market-based economy.

Neither the big bang nor the evolutionary models explain, however, why China did not become entrapped in the same “pitfalls” that ensnared the post-Soviet states. Students of the post-communist transitions in Eastern Europe and the former Soviet Union maintain that attempts to reform a socialist economy are likely to degenerate into “oligarchic capitalism” characterized by rent seeking,² corruption, and “crony capitalism” and stall out halfway

² As used herein, a rent is an artificially created profit that exceeds the profit obtained absent some exogenous manipulation of market conditions. Rent seeking is thus defined as activities designed to create either inflated profits or to gain control over rents previously created by artificial intervention. See Jagdish Bhagwati, “Lobbying and Welfare,” *Journal of Public Economics* 14 (1980): 1069–87; Anne O. Krueger, “The Political Economy of the Rent-Seeking Society,” *American Economic Review* 65 (June 1974): 291–303; James Buchanan, “Rent Seeking and Profit Seeking,” in James Buchanan, Robert D. Tollison, and Gordon Tullock, eds., *Toward a Theory of the Rent-Seeking Society* (College Station, TX: Texas A & M Press, 1980): 3–15; and Robert D. Tollison, “Rent Seeking: A Survey,” *Kyklos* 35, no. 4 (1982): 575–602.

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between the plan and the market.³ The pervasive shortages and price rigidities characteristic of Soviet-type economies, they argue, created a complex system of rents that are scraped off by the state or by corrupt officials in the form of bribes.⁴ Where partial reforms fail to eliminate these rents quickly by decontrolling prices, the first wave of reforms are likely to trigger a wave of rent seeking and corruption as insiders seek to capture rents themselves or new “entrepreneurs” attempt to grab them. Because the gains from partial reform are likely to be highly concentrated, this relatively small class of rent seekers is less vulnerable to the collective action problem than the mass of “losers.” The net result is that the initial winners are likely to gain the upper hand politically, capture the state, and use their newfound political power to block further reforms that would dissipate rents.⁵ In this model, once the central planning apparatus has been weakened, a partial reform program is apt to be hijacked by a coalition of the old *nomenklatura*, “red directors,” and oligarchs seeking to construct a predatory form of capitalism. Unrestrained rent seeking, however, is likely to prevent such a system from stabilizing; in the end, corrupt officials and the oligarchs are likely to drive the economy to the point of collapse.⁶

³ See Kevin M. Murphy, Andrei Shleifer, and Robert W. Vishny, “The Transition to a Market Economy: Pitfalls of Partial Reform,” *The Quarterly Journal of Economics* 107, no. 3 (August 1992): 889–906; Joel S. Hellman, “Winners Take All: The Politics of Partial Reform in Postcommunist Transitions,” *World Politics* 50, no. 2 (January 1998): 203–34; Anders Aslund, “Why Has Russia’s Economic Transformation Been So Arduous?” Paper presented at the World Bank’s Annual Conference on Development Economics, Washington, DC, April 1999 (available at <http://www.ceip.org>); Anders Aslund and Peter Boone, “How to Stabilize: Lessons from Post-Communist Countries,” *Brookings Papers on Economic Activity*, no. 1 (1996): 217–314; Oleh Havrylyshyn and John Odling-Smee, “Political Economy of Stalled Reforms,” *Finance & Development* 37, no. 3 (September 2000); and de Melo and Gelb, “A Comparative Analysis of Twenty-Eight Transition Economies in Europe and Asia”: 265–85.

⁴ See J.M. Montias and Susan Rose-Ackerman, “Corruption in a Soviet-Type Economy: Theoretical Considerations,” in Steven Rosefielde, ed., *Economic Welfare and the Economics of Soviet Socialism: Essays in Honor of Abram Bergson* (New York: Cambridge University Press, 1981): 53–83; Gary M. Anderson and Peter J. Boettke, “Soviet Venality: A Rent-Seeking Model of the Communist State,” *Public Choice* 93, no. 1–2 (October 1997): 37–53; and Andrei Shleifer and Robert Vishny, “Pervasive Shortages under Socialism,” *Rand Journal of Economics* 23, no. 2 (Summer 1992): 237–46. Also see Andrei Shleifer and Robert W. Vishny, *The Grabbing Hand: Government Pathologies and Their Cures* (Cambridge, MA: Harvard University Press, 1998).

⁵ Joel Hellman and Mark Schankerman, “Intervention, Corruption and Capture: The Nexus between Enterprises and the State,” *Economics of Transition* 8, no. 3 (November 2000): 545–76 and Thane Gustafson, *Capitalism Russian-Style* (New York: Cambridge University Press, 1999): 14.

⁶ Anders Aslund and Mikhail Dmitriev, “Economic Reform versus Rent Seeking,” in Anders Aslund and Martha Brill Olcott, eds., *Russia after Communism* (Washington, DC: Carnegie Endowment for International Peace, 1990).

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Big bang reforms that quickly eliminate controls on prices and allow for rapid privatization, on the other hand, are likely to create economic chaos in the short term. Given an initial condition of scarcity, rapid reform will trigger inflation and windfall profits (rents) for those in control of scarce goods. Inflation and rents should, however, lead to a rapid increase in production by attracting new entrants. After a period of chaos, rents should dissipate and the economy should begin to expand rapidly. The rapidity with which the reforms and an accompanying dramatic decrease in the ability of state agencies should also prevent rent seekers from “capturing” the state and perverting the “reform” process into one that prevents the elimination of most rents.

Reforms that focus purely on transforming the economy without concurrent political reforms are also more likely to stall, according to students of the post-Soviet transitions. If the sweeping powers of the old party-state are not reduced at the same time economic reforms are introduced, cadres and state institutions will continue to be able to manipulate regulations and create rents for themselves or for private interests, as they did under the old system.⁷ The resulting headlong quest for rents and loot can result in institutional implosion and, possibly, state collapse as the corrupt officials usurp the power of the state.⁸ Weakening the state and reducing the ability of officials to enforce and manipulate rules and regulations arbitrarily thus reduce the threat that corrupt cadres and private rent seekers will succeed in hijacking the reform process.

In short, analyses of economic transitions in Eastern Europe and the former Soviet Union suggest that countries that adopt incremental economic reforms and remain under the control of nondemocratic regimes are more likely to evolve into degenerate economic forms. Economies that combine elements of state control with markets essentially facilitate extensive rent seeking and are more likely to bog down in this intermediate stage than those countries that marketize rapidly.

This being the case, China’s reforms should have stalled somewhere between the plan and the market. Deng and his allies eschewed sweeping reforms, opting instead to move slowly, liberalizing agricultural production first and allowing new industrial sectors to grow up outside the plan. They backed away from privatizing the state sector. They also rejected price decontrols and opted instead to create a “two-track price system” that explicitly left in place rents and

⁷ See Anders Aslund, “Lessons of the First Four Years of Systemic Change in Eastern Europe,” *Journal of Comparative Economics* 19, no. 1 (August 1994): 22–38; Jan Winiecki, *The Distorted World of Soviet-Type Economies* (New York: Routledge, 1988); and M.S. Voslensky, *Nomenklatura: The Soviet Ruling Class* (Garden City, NY: Doubleday, 1984).

⁸ Steven L. Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge, MA: Harvard University Press, 1998).

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assigned them to the state. Thus, they created an economy that they dubbed “socialism with Chinese characteristics.” It was no longer socialist but was not yet capitalist, and instead stood awkwardly between the old Maoist command economy and the market. Moreover, China’s reformers rejected political reforms. Instead, they implemented a program of decentralization that increased the power of local governments but failed to institutionalize legal structures that would prevent local officials from selectively applying economic regulations. Deng, in other words, did virtually everything wrong and China’s semireformed economy should have faltered in the face of dysfunctional rent seeking. Yet the Chinese economic obviously prospered.

China managed to defy the odds against incrementalism in large part, according to the proponents of the big bang model, because its economy was so underdeveloped that extremely high rates of growth could be achieved given even marginal reform.⁹ First, whereas the economies of Eastern Europe and the Soviet Union were largely industrialized by the 1980s and had essentially reached the feasible limits of growth under a planned economy, the Chinese economy remained under industrialized. In 1978, 71 percent of China’s labor force was engaged in low value-added agriculture, with the result that this sector accounted for just 28 percent of gross domestic product (GDP), and yielded output value of just ¥360 per worker. Industry, on the other hand, accounted for 17 percent of employment but 49 percent of GDP and yielded output value of ¥2,504 per worker.¹⁰ Because productivity per worker in the agricultural sector was lowered by the deployment of excessive labor, shifting surplus labor out of agriculture and into industry allowed for significant gains in productivity and hence quick gains in GDP.

Second, much of China’s existing industrial capacity was underutilized prior to reform, creating considerable slack and hence room for rapid growth simply by increasing production. Third, even though China enjoyed a considerable comparative advantage in the cost of labor, trade accounted for only 10 percent of gross national product (GNP). Thus, significant gains could be obtained by expanding exports. Fourth, unlike the Soviet Union, where wage increases during the Gorbachev period had exceeded the growth in consumer goods, creating a “money overhang” and repressed inflation, China’s low household

⁹ See Hu Zuli and Moshin S. Khan, “Why is China Growing So Fast?” *Economic Issues* 8; Jeffrey D. Sachs and Wing Thyee Woo, “Understanding China’s Economic Performance,” Harvard Institute for International Development, Development Discussion Paper no. 575 (March 1997); Wing Thyee Woo, “The Real Reasons for China’s Growth,” *The China Journal*, no. 41 (January 1997): 115–37; and Wing Thyee Woo, “Chinese Economic Growth: Sources and Prospects,” in Michel Fouquin and Françoise Lemoine, eds., *The Chinese Economy* (London: Economica, 1998).

¹⁰ Based on data in *Zhongguo Tongji Nianjian, 1994* (Beijing: Zhongguo Tongji Chubanshe, 1994).

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income and savings meant that inflationary pressures were low.¹¹ Enforced savings also meant that there was pent-up demand for consumer goods and hence a ready market for increased industrial production. The potential for growth was so strong, in fact, that even a flawed gradualist strategy would have triggered rapid gains.¹²

Several additional factors minimized the negative consequences of incrementalism, according to the believers in the big bang approach. First, although systemic reform may have unfolded in an ad hoc manner, critical reforms, such as the decollectivization of agriculture, were actually implemented in a swift, comprehensive manner and the greatest gains were realized in the areas where the most rapid and radical reforms took place.¹³ Second, whereas state institutions in the former Soviet bloc either crumbled during the early days of reform or were severely weakened by reform, the center in China remained relatively strong and was able to contain rent seeking and prevent a “bank run” scramble to strip the state of all its assets.¹⁴ Third, whereas bureaucratic interests in the former Soviet Union and Eastern bloc were deeply entrenched and had a virtual choke hold on their economies, the Chinese bureaucracy had been so battered by the twin upheavals of the Great Leap Forward and the Cultural Revolution that it was too weak to stifle reform and quickly lost its grip on the economy.¹⁵ The big bang school thus holds that incrementalism “succeeded” in China not because it was a wise strategy but rather because the repressed economic forces were so strong that even the “wrong” strategy was likely to produce “good results.”¹⁶ China, in other words, achieved rapid growth despite Deng’s incremental reforms.

¹¹ de Melo and Gelb, “A Comparative Analysis of Twenty-Eight Transition Economies in Europe and Asia.”

¹² Sachs and Woo, “Understanding China’s Economic Performance”: 2–4.

¹³ Jeffrey Sachs and Wing Thye Woo, “Structural Factors in the Economic Reforms of China, Eastern Europe, and the Former Soviet Union,” *Economic Policy* 9, no. 18 (April 1994): 101–45 and Wing Thye Woo, “The Art of Reforming Centrally Planned Economies: Comparing China, Poland, and Russia,” *Journal of Comparative Economics* 18, no. 3 (June 1994): 276–308.

¹⁴ Murphy, Schleifer, and Vishney, “The Transition to a Market Economy”: 906 and Steven L. Solnick, “The Breakdown of Hierarchies in the Soviet Union and China: A Neoinstitutional Perspective,” *World Politics* 48, no. 2 (January 1996): 209–38.

¹⁵ Woo, “The Art of Reforming Centrally Planned Economies.”

¹⁶ It is difficult to understate the big bang school’s contempt for gradualism. Woo, for example, writes:

Gradualism is not like a person putting his pants on one leg at a time and big bang with the person jumping into his pants. The more accurate picture of gradualism is a person putting one leg into the pants and then stopping for a meditative smoke because he is insecure about whether he would not be better off with a fig leaf or a loincloth instead.

Woo, “The Art of Reforming Centrally Planned Economies,”: 276–308.

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The mainstream “evolutionary” school in the China field itself, however, maintains that gradualism was the key to successful reform in China. Whereas reformers in Eastern Europe and the former Soviet Union sought to shift quickly from a command-based economy to a market-based economy by eliminating existing economic institutions, China’s reformers sought to modify existing institutions and thereby increase overall efficiency. China’s reformers, therefore, sought to stimulate growth and introduced limited market mechanisms in an instrumental and incremental fashion. Reform was designed to release underutilized resources and reallocate them to more efficient use.¹⁷ During the early stages, this was done in a bold manner that was not necessarily different from the big-bang approach. But the scope of change was much more limited. Whereas reformers using a shock-therapy approach mounted a frontal assault on the entire economic system, reformers in China targeted specific inefficiencies with the aim of accelerating growth in selected sectors where the greatest gains in efficiency were likely to be realized: agriculture and foreign trade.¹⁸ Policy makers approached reform with fundamentally different assumptions:

Policy makers in Russia and Eastern Europe have behaved as if they believed that successful transition would result in sustained growth. The Chinese have reversed the direction of causality: sustained growth permits a successful transition, while falling output and incomes greatly hamper it.¹⁹

Because the goal of reform was growth rather than systemic change, China’s reformers left intact the main elements of the old command economy and allowed them to continue to function, thus preventing a sudden drop in output. New market-driven sectors were then established alongside the command sector, not by reallocating resources from the plan sector, as would be done in a shock-therapy reform, but rather by mobilizing new resources in formerly suppressed sectors.²⁰ As a result, China’s gradualist approach avoided the “J-curve”

¹⁷ Richard Pomfret, “Growth and Transition: Why has China’s Performance Been So Different?” *Journal of Comparative Economics* 25, no. 3 (December 1997): 422–40.

¹⁸ Kang Chen, Gary H. Jefferson, and Inderjit Singh, “Lessons from China’s Economic Reforms,” *Journal of Comparative Economics* 16, no. 2 (June 1992): 201–25.

¹⁹ Keith Griffin and Azizur Rahman Khan, “The Chinese Transition to a Market-Guided Economy: The Contrast with Russia and Eastern Europe,” *Contention* 3, no. 2 (Winter 1994): 104.

²⁰ Justin Yifu Lin and Cai Fang, “The Lessons of China’s Transition to a Market Economy,” *CATO Journal* 16, no. 2 (Fall 1996); Louis Putterman, “The Role of Ownership and Property Rights in China’s Economic Transition,” in Andrew G. Walder, ed., *China’s Transitional Economy* (New York: Oxford University Press, 1996): 85–102; and Louis Putterman, “Dualism and Reform in China,” *Economic Development and Cultural Change* 40, no. 3 (April 1992): 467–93.

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phenomenon (a short-term drop in output as resources shift, followed by a rise once they have been redeployed).²¹ Moreover, because the marketized sector grew more rapidly than the planned sector, the balance between the sectors shifted over time. As a result, the Chinese economy gradually “grew out of the plan” and it was only after the marketized sector had become firmly entrenched that China’s reformers began to try to marketize the planned sector.²² The process was bold in its inception, but not cataclysmic, as it was in Eastern Europe and Russia, with the result that China’s reformers were able to proceed “by trial and error, with frequent mid-course corrections and reversals” and muddle through rather than risking the entire process on a single roll of the dice.²³

The evolutionary school also maintains that as this evolutionary process began to unfold, existing economic actors responded positively to changing incentive structures that linked local government revenues to expenditures, enterprise revenues to profits, and local government revenues to local enterprise profits. By linking local governments’ interests to the performance of the local economy, these reforms gave rise to a series of “hybrid” economic institutions suited to the “contradictions” created by the continued coexistence of the plan and the market.²⁴ Local governments in some areas thus adopted a strategy of “local state corporatism” based on a developmental alliance between local governments and the emerging nonstate sector, “government officials themselves have become market-oriented actors,” and “cadre entrepreneurs” forged “corporatist alliances” with the managers of local collectively owned enterprises and private businessmen to overcome weak market structures.²⁵ In other areas reform gave rise to “state entrepreneurialism” and an “entrepreneurial state” that largely

²¹ Justin Yifu Lin, Fang Cai, and Zhou Li, *The China Miracle: Development Strategy and Economic Reform* (Hong Kong: Chinese University Press, 1996). Also see Justin Yifu Lin, Fang Cai, and Zhou Li, “Why Has China’s Economic Reform Been Successful?” unpublished manuscript, available at http://www.fraserinstitute.ca/montelerin/papers/china_success/.

²² Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978–1993* (New York: Cambridge University Press, 1995) and Barry Naughton, “What is Distinctive about China’s Transition? State Enterprise Reform and Overall System Transformation,” *Journal of Comparative Economics* 18, no. 3 (June 1994): 470–90.

²³ John McMillan and Barry Naughton, “How to Reform a Planned Economy: Lessons From China,” *Oxford Review of Economic Policy* 8, no. 1 (Spring 1992): 130–43.

²⁴ For a critical review of several of the key works in this literature, see Shu-yun Ma, “Understanding China’s Reforms: Looking Beyond Neoclassical Explanations,” *World Politics* 52, no. 4 (July 2000): 586–603.

²⁵ Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley, CA: University of California Press, 1999); Andrew G. Walder, “Local Governments as Industrial Firms: An Organizational Analysis of China’s Transitional Economy,” *American Journal of Sociology* 101, no. 2 (September 1995): 263–301; and Victor Nee, “Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China,” *Administrative Science Quarterly* 37, no. 1 (1992): 1–27.

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eschewed rent seeking in favor of cooperation with local enterprises or set up its own market-oriented businesses.²⁶

As state institutions became market-oriented actors individual cadres also became “bureaucratic entrepreneurs.” Yet, because state institutions and cadres remained politically and socially embedded they tended to pursue economic, political, and social goals that provided public goods for their communities and private goods for themselves and their units simultaneously. Thus rather than give rise to a degenerate form of oligarchic rent seeking, partial reform in China spawned a new form of market-based “developmental communism.”²⁷ The combination of a reformist leadership in Beijing and developmentalist governments at the provincial level created a “dual developmental state” in which both center and locality had a common interest in promoting rapid growth.²⁸ State monopolies thus became “arbitrage-seeking commercial traders” and “quasi-commercial” agencies while the People’s Liberation Army became an “entrepreneur” and many of its officers evolved into market-oriented “soldiers of fortune.”²⁹

The rise of bureaucratic entrepreneurialism was, of course, accompanied by a rise in rent seeking as many nouveaux bureaucratic entrepreneurs sought to parlay their public authority into windfall profits and rents. The ability of individual agencies and localities to engage in extensive rent seeking was, however, limited by the emergence of a “semifederalist” system in which capital became

²⁶ Jane Duckett, “Bureaucrats in Business, Chinese Style: The Lessons of Market Reform and State Entrepreneurialism in the People’s Republic of China,” *World Development* 29, no. 1 (January 2001): 23–37; Jane Duckett, “The Emergence of the Entrepreneurial State in Contemporary China,” *The Pacific Review* 9, no. 2 (1996): 180–98; Jane Duckett, *The Entrepreneurial State in China: Real Estate and Commerce Departments in Tianjin* (New York: Routledge, 1998); Marc Blecher, “Development State, Entrepreneurial State: The Political Economy of Socialist Reform in Xinju Municipality and Guanghan County,” in Gordon White, ed., *The Chinese State in the Era of Economic Reform: The Road to Crisis* (Armonk, NY: M. E. Sharpe, 1991): 265–91; and Marc Blecher and Vivienne Shue, *Tethered Deer: Government and Economy in a Chinese County* (Stanford, CA: Stanford University Press, 1996).

²⁷ Lance L.P. Gore, *Market Communism: The Institutional Foundation of China’s Post-Mao Hyper-Growth* (New York: Oxford University Press, 1998): ch. 3.

²⁸ Ming Xia, *The Dual Developmental State: Development Strategy and Institutional Arrangements for China’s Transition* (Brookfield, VT: Ashgate, 2000): chs. 2 and 8.

²⁹ Scott Rozelle, Albert Park, Jikun Huang, and Hehui Jin, “Bureaucrat to Entrepreneur: The Changing Role of the State in China’s Grain Economy,” *Economic Development and Cultural Change* 48, no. 2 (January 2000): 227–52; Albert Park and Scott Rozelle, “Reforming State-Market Relations in Rural China,” *Economics of Transition* 6, no. 2 (November 1998): 461–80; Thomas J. Bickford, “The Chinese Military and its Business Operations: The PLA as Entrepreneur,” *Asian Survey* 34, no. 5 (May 1994): 460–74; James Mulvenon, *Soldiers of Fortune: The Rise and Fall of the Chinese Military-Business Complex, 1978–1998* (Armonk, NY: M.E. Sharpe, 2000); and James Mulvenon, “Military Corruption in China,” *Problems of Post-Communism* 45, no. 2 (March–April 1998): 12–22.

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increasingly mobile. If a locality engaged in excessive rent seeking, capital would migrate to other localities while “competitive liberalization” forced local governments to progressively improve market conditions or face an outflow of capital.³⁰ Local governments thus found themselves forced to rely more on promoting market-oriented growth than predatory rent seeking.³¹

The configuration of forces was such that once the reformers opened a crack in the central planning “monolith,” a dynamic process was unleashed that “[pried] the crack open ever more widely” and created “a process of change that became irreversible.”³² This was clearly the case in the agricultural sector, according to Kelliher, Yang, and Zhou, where “spontaneous reform” occurred at the local level as “Mao’s serfs” replaced collective agriculture with a new system of household farming, even before the center embraced decollectivization. In fact, spontaneous, bottom-up “reforms” frequently outpaced “top-down” reforms emanating from Beijing and in many cases “reforms” announced by Beijing simply ratified and legitimated spontaneous grassroots reforms.³³ Moreover, limited success early on legitimated progressively more radical reforms and ensured that the reform process did not falter during its infancy.³⁴ This meant that reform was actually a “phase transition,” an:

evolving, co-evolving, chaotic, self-organizing, path dependent, and mutually catalytic process of change that is driven not by sequencing, as argued

³⁰ Gabriella Montinola, Yingyi Qian, and Barry Weingast, “Federalism, Chinese Style: The Political Basis for Economic Success,” *World Politics* 41, no. 1 (October 1996): 50–81; Wang Yijiang and Chang Chun, “Economic Transition under a Semifederalist Government: The Experience of China,” *China Economic Review* 9, no. 1 (Spring 1998); and Dali L. Yang, *Beyond Beijing: Liberalization and the Regions in China* (New York: Routledge, 1997).

³¹ Yingyi Qian and Hehui Jin, “Public vs. Private Ownership of Firms: Evidence from Rural China,” *Quarterly Journal of Economics* 113, no. 3 (August 1998): 773–808; Yingyi Qian and Jiahua Che, “Insecure Property Rights and Government Ownership of Firms,” *Quarterly Journal of Economics* 113, no. 2 (May 1998): 467–96; and Jiahua Che and Yingyi Qian, “Institutional Environment, Community Government, and Corporate Governance: Understanding China’s Township-Village Enterprises,” *Journal of Law, Economics, and Organization* 14, no. 1 (April 1998): 1–23.

³² McMillan and Naughton, “How to Reform a Planned Economy”: 131.

³³ See Daniel Kelliher, *Peasant Power in China: The Era of Rural Reform 1979–1989* (New Haven, CT: Yale University Press, 1992); Yang, *Beyond Beijing*; Dali L. Yang, *Calamity and Reform in China: State, Rural Society, and Institutional Change since the Great Leap Forward* (Stanford, CA: Stanford University Press, 1996); and Kate Xiao Zhou, *How the Farmers Changed China: Power of the People* (Boulder, CO: Westview, 1996). Also see David Zweig, *Freeing China’s Farmers: Rural Restructuring in the Reform Era* (Armonk, NY: M.E. Sharpe, 1997).

³⁴ Yingyi Qian, “The Institutional Foundation of China’s Market Transition,” in Boris Pleskovic and Joseph Stiglitz, eds., *Annual World Bank Conference on Development Economics 1999* (Washington, DC: World Bank, 2000): 289–310.