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Excerpt

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The Curse Revisited

The Dynamics of Social Change in China

Planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity. The essence of socialism is liberation and development of the productive forces, elimination of exploitation and polarization, and the ultimate achievement of prosperity for all... In short, if we want socialism to achieve superiority over capitalism, we should not hesitate to draw on the achievements of all cultures and to learn from other countries including the developed capitalist countries, all advanced methods of operation and techniques of management that reflect the laws governing modern socialized production.

Deng Xiaoping (1992)

After a remarkable three-decade period of double-digit economic growth, China has surpassed Japan to become the second-largest economy in the world, only surpassed by the United States. With its increasing economic power and political clout, China now frequently appears in Western newspapers, magazines, talk shows, academic journals and meetings, and even in the 2010 midterm political campaign advertisements in the United States, as everybody is eager to assess this awakening dragon and at the same time predict its future.

Life is confusing during times of radical social change: critics and eulogists coexist, and there are often mixed feelings of hope and despair. Like eighteenth-century England and France, China is at an equally critical juncture. Some predict that China could replace the United States in a few decades to become the next superpower; others foresee a fate similar to that of Japan three decades ago: eventually bubbles would burst and China would be trapped in stagnation, if not degenerate into a total calamity. From a Western point of view, it may be difficult to make sense of the many

paradoxes involved in China's development. The old modernization theory that attributes Western ascendancy to market capitalism, a scientific revolution, a consumer society, the Protestant work ethic, and political participation and representation, and thus suggests that developing countries should emulate the same institutions to rise in the modern world, does not seem to serve China well.

However, even a casual observer can see the rising skyscrapers, sprawling construction sites, bustling shopping malls and entertainment centers, nouveaux riches who indulge themselves in all kinds of status symbols from Lamborghinis to Hermès handbags,¹ and even the not-so-rich who are striving for a “petty bourgeoisie” (*xiaozhi*) lifestyle by actively acquiring the same items that comprise the dream of the American middle class: a car, a house, a well-paid white-collar job, and diverse leisure activities. For many, socialism with Chinese characteristics is indeed capitalism, not only in terms of economic institutions but also the increasingly capitalistic values among many Chinese today who work long hours and give their first priority to moneymaking activities and the accumulation of wealth above anything else. Yet one does not have to be a China specialist to notice the differences between China and the advanced capitalist countries. The question is then whether these differences indicate a transitory stage or an alternative path. Has the old Weberian curse that the Chinese do not have a work ethic of this-worldly asceticism and the purposive-legal rationality, both essential to the development of capitalism, been reversed?

In the following section, I first review some of the paradoxes evident in the process of China's reform and how current scholarship evaluates them, then present my interpretation, and finally analyze how this book can enrich the debate.

“Partial Reform”

The metamorphosis of Chinese society seems to be full of ambiguities that prohibit any easy labeling; one probably needs to look beyond the dichotomous views of capitalism and communism, state and market, in order to make sense of it. The first noticeable paradox is that China manages to run on two unbalanced legs that are often seen as incompatible: a Communist Party-led state and an increasingly liberalized economy. Of course, contrary

¹ China is now the second-largest market for luxury goods, accounting for 27.5% (\$9.6 billion) of the global market in 2009. See Donny Kwok's report at <http://www.reuters.com/article/idUSTOE67107820100806>.

to neoliberals, who believe that the only problem facing transitional economies is insufficient marketization, new institutionalists have long realized that an effective state is often an integral part of successful economic development and calls for “bringing the state back in” (Evans et al. 1985). New institutional economists such as Douglass North (1981) also propose that the state is an important actor in defining property rights and providing institutionalized norms to reduce transaction costs and thus recognize the importance of social institutions that underlie economic activities, although such propositions are still within the framework of market efficiency and instrumental rationality.

Those who study dependent development in Latin America and the East Asian developmental state further regard state capacity and state autonomy as key factors in analyzing socioeconomic transitions (White 1988; Evans 1989; Woo-Cumings 1999). However, whether deeper state intervention will bring about more state autonomy and a better capacity for coherent corporate action, will lead to the erosion and division of the state from civil society, or will cause rampant rent-seeking activities from those in power, is “complexly contingent, explicable only by the basis of careful comparative-historical research” (Rueschemeyer and Evans 1985:70). Nonetheless, the kind of “market fundamentalism” (Stiglitz 2002) displayed in the neoliberal version of development exaggerates the magic power of the market yet overlooks the complex relations between the state, the market, and social relations.

In contrast with other former socialist countries, China took what is called “a gradualist approach” to reform as opposed to the “shock therapy” adopted by Russia and Eastern Europe (Walder 1996). This reform strategy can be understood from three aspects.

First, unlike other former socialist countries, despite the relative economic liberalization, liberal democracy has not yet taken root in China, and much of the Soviet-Leninist mechanism remains untouched. China is still under the control of the Chinese Communist Party (CCP), and such a political fact is not likely to change in the near future. Therefore, the state/party combination will be the one to make and execute policies, constraining and controlling certain areas of development, societal change, and personal choices while rewarding others. Although direct elections have been formally implemented at the village level nationwide since the late 1990s, whether they will be scaled up to higher levels of administration remains to be seen. In the meantime, the CCP is searching for alternative ways to define and achieve democracy. This is clearly an attempt to legitimize the Chinese form of governance and counterbalance Western democratic ideals marked

by a multiparty voting system and based on the Enlightenment values of liberty, equality, and fraternity. Evidence for this can be seen in the so-called intraparty democracy initiatives and the recent debate among Chinese scholars and politicians on whether there are any universal values.²

Second, in the economic realm, some sectors are more radically transformed than others. China's reform started with agriculture as opposed to the state-owned enterprises. The establishment of the "household responsibility system" (*jiating lianchan chengbao zerenzhi*)³ in the late 1970s as a replacement of brigades and communes led to the sudden de-collectivization in rural China and the rapid marketization of farming and rural industries. However, the state's control over the production and pricing of grain and cotton was not relaxed until after more than two decades into the reform.⁴ In urban areas, reform was much more incremental. State-owned enterprises (SOEs) had not been substantially altered until the late 1990s. Many industries, such as banking and telecommunications, remained in state control long after the reform began, and it was only following China's entry into the WTO in 2001 that some were put on the agenda to be subject to market mechanisms and open for global competition. While protecting and subsidizing the SOEs, China also encouraged the development of the non-state sector, especially collective enterprises and joint ventures. It is through this dual-track and piecemeal approach, as opposed to hollowing out public ownership overnight, that China has conducted its structural and ownership reforms.

Third, the more radical reform strategies are often first experimented on a small scale before they are spread nationwide. The aforementioned

² See, for example, "The Debate over 'Universal Values' in China," by Jianmin Qi, *Journal of Contemporary China*, 2011, 20(72): 881–890. The debate was essentially over the question of whether the Western Enlightenment values are common pursuits for every human being despite economic, social, and cultural differences.

³ The household responsibility system grants peasants the use-right of land and the residual claimant right after turning over to the state a fixed proportion of what they have produced. The system does not involve the privatization of land, but restores the way of organizing production to that before the collectivization in Maoist China – that is, the family as the basic unit for farming and production.

⁴ For a discussion of the development of agricultural commerce in China and the fluctuation of state policies in grain and cotton production, see Terry Sicular, "Redefining State, Plan and Market: China's Reforms in Agricultural Commerce," in Andrew G. Walder (ed.), *China's Transitional Economy* (Oxford, UK: Oxford University Press, 1996), pp. 58–84. In 2004, the state passed a new grain-trading regulation to further reform the grain distribution system and to liberalize grain pricing and grain trading in accordance with market supply and demand. Economic units with different ownership forms were all allowed to compete in the grain market after passing the qualifying inspection. See *China Daily* (June 4, 2004).

household responsibility system, for example, was first created in the late 1970s by a group of commune members in Xiaogang Village located in Anhui province, and was then gradually adopted by other places in the early 1980s. Among the cities, Shenzhen, Zhuhai, Shantou, and Xiamen were the first four “special economic zones” opened to foreign investment and the global market in 1980 as a testing ground for economic reforms, joined in 1984 by fourteen more coastal cities with eleven “economic and technological development zones.” Those economic zones received favorable state treatment including tax reductions and exemptions. In 1988, China established the Hainan special economic zone, and Shanghai’s Pudong was not open to foreign investment until 1990. From coastal cities to cities along the borders and rivers and finally to the hinterland, China has been opened to the world economy step by step.

China’s “partial reform” has resulted in different evaluations. Scholars influenced by the modernization thesis and the critics of earlier partial reform in East European countries such as Hungary argue that China’s gradualist approach is pathological and raises serious structural problems. For them, the market and a socialist state are incompatible, as government has nonfinancial interests in firms and firms can rely on government for subsidies and bailouts, leading to an underperforming economy. This is somewhat ironic if one looks at similar situations in advanced capitalist countries following the 2008 financial recession. Such a view was more prevalent in the 1980s and early 1990s (Wong 1986; Kornai 1992), but has never completely disappeared and has turned into disbelief about the sustainability of China’s economic development and the prediction of its upcoming collapse (e.g., Chang 2001). A related assessment is that China has been relatively successful in the more radically reformed areas such as rural industries and other non-state sectors but less exceptional where reform has been incremental (Woo 1994; Huang 2008). Some argue that China’s miraculous economic growth is a result of the transformation of an agrarian society, or largely rural society, into an industrial society, and is thus fundamentally different from the experience of a highly urbanized Soviet Union (Sachs and Woo 1994; Woo 1994). A more positive conclusion is that although China has its own problems, it is on the way to social change and economic improvement, and it thus acknowledges the accumulative effects of the reforms (Naughton 1994; Rawski 1994).

In recent years, from Joshua Cooper Ramo’s *Beijing Consensus* (2004) to Giovanni Arrighi’s *Adam Smith in Beijing* (2007) to the discussion of the possibility of a China model (*zhongguo moshi*) since the global recession, China’s developmental strategy has been seen by some as a challenge to the

Western triumphalism as it has seemingly defied the doctrines of neoliberalism and can possibly provide developing countries with an alternative path of development that counters the teachings of privatization, marketization, and liberalization advocated by the Washington Consensus. In other words, Fukuyama (1992) was far too early to announce “the end of history,” as the fight over the ultimate goal of development and the proper social, economic, and political institutions leading to that outcome continues. Others, however, see China’s economic success as the victory of neoliberalism that is largely based on the exploitation of the vast pool of cheap labor by foreign investment and an increasingly open economy that releases domestic entrepreneurship. Any problems, it is claimed, are the consequences of deviating from the Washington Consensus (Huang 2008; Yao 2011). The question of whether there is indeed a “China model,” or any components of such a model, is beyond the scope of this book,⁵ but I hope to offer a new perspective on China’s development by analyzing the relationship between the state, the market, and social relations. I call it *community capitalism* and discuss the concept further later in the chapter.

The Market Transition Debate

Related to the “partial reform” issue are the questions of who benefits financially and who gains power as market mechanisms are introduced, and what accounts for the vitality of a private economy in post-socialist China. There are three main bodies of literature analyzing these issues.

The first is the market transition theory initiated by Victor Nee in 1989 in a study of household income in rural China (Nee 1989, 1991, 1992, 1996; Nee and Cao 1999; Cao and Nee 2000). It is based on Karl Polanyi’s typology of modes of economic integration (1957): reciprocity, redistribution, and market exchange.⁶ Institutional change in post-socialist

⁵ I discussed this topic in a conference paper entitled “All Roads Lead to Washington?: Controversies over the China Model,” which was presented on May 29, 2011, at “Visions and Perspectives: Global Studies in the 21st Century” held in Nanjing, China.

⁶ According to Polanyi, the market is not something natural but is situated in social institutions. In addition, the economy cannot be seen as equal to the market, as there have been other forms of economic organization through human history, such as reciprocity and redistribution. Reciprocity is based on symmetric groups exchanging favors, whereas redistribution is where goods flow in and out of a center or central authority that determines entitlements. In both cases, economic activities define and are also defined by social relationships and social standing. Reciprocity, redistribution, and market exchange are not different stages of development but can coexist. Here Polanyi’s original argument is actually different from the assumption made by the market transition theory that views the market as the end result.

societies is conceptualized as a transition from a redistributive economy to a market economy. This account mainly focuses on the changing power – control over economic resources – in the transition of state socialism from state redistributors or government cadres to direct producers or private entrepreneurs. It emphasizes that the emerging markets open up opportunities for private businesses. As a result, the stratification system in socialist China will start to converge with capitalist societies, as market forces replace bureaucratic-redistributive mechanisms and the cadre elite with political capital loses its advantage to the business elite with human capital.

There are several variations on the market transition theory. One apparent contradiction to the market power thesis is the lingering redistributive power and the persistence of socialist institutions (Bian and Logan 1996; Parish and Michelson 1996). Scholars who take a more state-centered approach argue that the shift from redistribution to market is simply a more effective way of government control, and the primary beneficiary of marketization is the same old “cadre elite,” because the bureaucrats know well how to convert political power into economic capital (Rona-Tas 1994). Although market mechanisms have created more incentives than political directives, and people who have more technical skills can also gain upward mobility, political credentials remain an important determinant of elite position, thus generating “a divided elite” (Walder 1995).

Another modification of the market transition theory is related to its dichotomy of market and redistribution. Walder (1996), for example, argues that market allocation per se has no implications for the distribution of power and income. Those two ideal types need to be seen in a specific context, as the pace of change and arrangements of institutional mixes may vary. Scholars since then have started to pay more attention to the process of transition rather than the outcome (Zhou 2000; Walder 2002, 2003).

An important limitation of the market transition theory, as Nan Lin (1995) correctly points out, is its view of a market economy as the end product, and anything other than a market economy should not be seen as transitory and may well persist or even provide possibilities for alternatives. In addition, the market itself is embedded in different social relations, institutional setups, and sense-making mechanisms; therefore, the market in reality is not a uniform abstract structure as in the ideal-type model of neoclassical economics. In other words, the free, self-regulating market is nothing but a myth. Furthermore, it does not account for local variations under the same set of state reform policies (Lin 1995). How local governments and people interpret the market transition may well affect the path of

development, and economic forces are intertwined with other processes of societal, ideological, cultural, and political change.

The second body of literature is based on market-bureaucracy interaction (Bruun 1993, 1995; Wank 1995, 1996, 1999; Pearson 1997; Walder and Oi 1999), which suggests that China's private economy was born out of the interdependent, clientelist ties between local state officials and private entrepreneurs. As the state becomes more decentralized, greater autonomy and authority – and thereby more responsibilities – are passed down to local governments. Local state officials capitalize on their power and rely on private entrepreneurs for developing local economies, while private entrepreneurs depend on their ties with the local officials for resources and opportunities to initiate and develop their businesses. Therefore, there are complex relations between local governments and the central government, between local interests and national interests, and between different local governments.⁷ Jean Oi, when analyzing rural China, characterizes the situation as “local state corporatism” seen as a variation of “state corporatism” in explaining the role of local governments. On the one hand, she uses the principal-agent model to explain the relation between the central state and local governments, in which the latter acts on behalf of the former. On the other hand, local governments “restrain the private sector from becoming an independent economic class” (Oi 1999:13) while often playing an entrepreneurial role in running the various firms within their territory.

Such a perspective provides new insight into China's transition, especially in the rural areas, as decentralization may not lead to the demise of central command and the dominance of the market. However, the patron-client or principal-agent ties first assume that political actors are rational, a transposition of the neoclassical economic model to the political field, and secondly they are based on dyadic ties. To what extent are local cadres rational? How do multiple ties affect one another? Clearly, cadres have other social responsibilities to meet, which is especially true for those in rural China. A village is not only a governing entity, but also a community and – for some industrialized villages – a large corporation, too. This approach fails to explain how cadres juggle their different social roles.

⁷ China has five levels of administration: the central government, provinces (including four municipalities directly under the central government, i.e., Beijing, Shanghai, Tianjin, Chongqing), cities/city-level counties, counties/city districts, and towns. Village governments are not counted as an official administrative level, but they are responsible for implementing the policies from the administrative levels above and are in direct contact with peasants.

The third analysis focuses on the sociocultural roots of transition (Hamilton and Kao 1990; Lin 1995; Whyte 1995, 1996; Lin and Chen 1999). It attributes the rising private economy to family-based or kinship-based obligation and trust. Market and command forces pull their strings through social networks. Family or kinship, as a traditional and enduring social institution, even after several decades of transformation under Mao, assumes two features: the declining power of the older generation and the survival of family solidarity. As a result, when economic reforms provide ideological and institutional support for private entrepreneurship, family becomes the dominant way of organizing economic undertakings, and family and pseudo-family networks become the major channels of resource mobilization. This approach complements the overemphasis on privatization or economic organization in the first two paradigms. However, just as it criticizes the market transition theory for not being able to cover local variations, it also fails to account for why one type of social network, such as kinship ties, is stronger in certain regions than in others, and why people choose one kind of ties over others.

These approaches provide three analytical tools to interpret China's transition: the first focuses on economic capital replacing political capital, and consequently market relations displacing political ties; the second looks at the clientelist ties between local cadres and private entrepreneurs and the role of the state, especially local state, in steering reforms; the third proposes the importance of family and pseudo-family networks in the development of a private economy. All three institutions – market, state/local state, and family and social networks – exert their influence on the Chinese economy, and depending on the social, economic, and political resources accessible to local communities, one form of economic organization may play a dominant role in different parts of China. If there is indeed a “China model,” it certainly is not just one monolithic entity, but is composed of different local variations. For example, there is the more state-centered *Sunan Moshi* (Southern Jiangsu Model), but also the more entrepreneurial experience of Wenzhou and Shenzhen. Even in Wenzhou, in addition to the booming family businesses, there are still places where collective enterprises thrive, for instance in Shangyuan Village, one of the three cases in this book. So let a thousand flowers blossom but also let the flowers cross-pollinate – such is an exploratory and mutual learning process. The central state, meanwhile, plays the role of controller of last resort determining the road map of development and setting guidelines. The existence of local variations indicates that one needs to look at the macro-micro interaction to understand the dynamics of social change in China.

Social Networks and the Market

Social networks, or *guanxi* in Chinese, define reciprocal obligation and mutual indebtedness. Many foreigners first get the idea of how *guanxi* works in China through the norm of gift giving. To put it simply, *guanxi* involves various personal ties: kinship ties, the “tong-ties” (including connections established through common place of origin, surname, school, work unit, army branch, etc.), the fictive kinship ties (e.g., sworn brotherhood/sisterhood/parenthood), and ties as members of the CCP or other parties and associations. In a word, it is the metaphor for “family” in social organization. Various *guanxi* networks govern different aspects of people’s lives and define a person’s identity.

In some sense, Weber’s (1951) description of Chinese society as based on patrimonialism, in which a person’s power lies in his relationship with the ruler, has not been reversed. Such can be seen in the findings of the persistent power of cadres and clientelist ties between the political elite and entrepreneurs in many studies in the market transition debate. Is it possible to have a capitalist market economy without a Western rational-legal system? Is *guanxi* something inherent in Chinese culture or the result of a specific institutional setting? Do *guanxi* and the market have an inverse relationship so that the increase of one will lead to the diminishing role of the other?

From Weber to Parsons and on to modernization theory, social scientists generally believe that in a market economy human relations will be more affective-neutral and rational. However, many observers also find that in Japan and the newly industrialized economies in East Asia – Taiwan, Hong Kong, Singapore, and South Korea – family and other kinship or pseudo-kinship ties play an important role in the development of a capitalist economy and may actually be conducive to economic efficiency. For example, Ronald Dore (1983: 459–482) describes the kind of “relational contracting” in Japan that is more long term and collective-oriented and based on mutual obligation rather than short-term profit maximization. For some, China’s choice of development is rooted in its East Asian location and a large population of successful overseas Chinese entrepreneurs, which both stimulates its desire for economic growth and provides it with opportunities and resources, such as foreign direct investment, trade, and other exchanges (Li 1994; Walder 1996). China is, therefore, following the East Asian model: an authoritarian government supervising the market reforms or the so-called developmental state, an export-oriented economy, and more importantly, a cultural tradition that emphasizes collective solidarity, social relationships, achievement-oriented work ethic, and the prestige of education.