

Did Deng's China Follow A Developmental State Model?

: A Study of State Autonomy and State Capacity during Deng Xiaoping's era*

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논문 요약

1978년 개혁개방 이후 중국이 급부상함에 따라 중국의 급속한 경제성장의 원동력이 무엇인지에 대한 많은 연구가 진행되었고, 많은 학자들이 경제성장에 있어서 중국정부의 주도적인 역할에 초점을 맞추며 중국 역시도 동아시아 발전국가 모델 중 하나로 봐야한다고 주장하였다. 이에 본 연구는 발전국가를 “국가목표 달성을 위한 높은 수준의 국가자율성과 국가능력을 갖춘 국가”로 정의하고 덩샤오핑 시대 중국의 국가자율성과 국가능력의 변화를 분석함으로써 이 당시 중국을 발전국가로 분류할 수 있는지를 알아보았다. 덩샤오핑이 개혁개방을 실행하던 1978년 중국은 이미 높은 수준의 국가자율성을 갖고 있었다는 점에서 본 연구는 국가능력을 “자율성유지능력”과 “국가목표달성능력”의 두 가지 층위로 나누어서 분석하였다. 분석 결과, 먼저 자율성유지능력의 측면을 보면, 덩샤오핑 시대의 중국은 시민사회로부터는 충분한 국가자율성을 유지할 수 있었지만, 시장으로부터의 국가자율성이 약화되었다. 따라서 덩샤오핑 시대의 중국은 발전국가로 구분될 수 있을 만큼의 충분한 자율성유지능력이 없었던 것으로 확인되었다. 국가목표달성능력의 측면은 중국의 산업정책을 통해 확인하였다. 당시 중국의 산업정책은 산업부문간 균형발전을 이루는 것이 목표였음에도 불구하고 경공업과 가공공업의 급속한 발전을 통제하지 못하여 산업간 균형발전을 달성해내지 못했다는 점에서 덩샤오핑 시대의 중국은 충분한 국가목표달성능력이 없었던 것으로 판단된다. 결과적으로 덩샤오핑 시대의 중국은 자율성유지 능력과 국가목표달성능력 두 가지 측면에서 모두 발전국가 모델로 분류되기에는 적합하지 않은 것으로 확인되었다.

주제어 : 국가능력, 국가자율성, 자율성유지능력, 국가목표달성능력, 덩샤오핑, 중국개혁개방

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I. Introduction

Between the 1950s and the 1980s, three East Asian countries, showing exponential economic growth, surprised worldwide scholars. Interpreting the underlying logics of their growth, many scholars argued that the state intervention had been the core force for the countries' industrialization, and therefore need to be attributed to the phenomenal growth. Their idea had been conceptualized as a "developmental state" theory. After the rapid growth of the East Asian countries, on the other hand, another East Asian country, China, is recently growing rapidly. Over the 30 years since the economic reform of 1978, China's economy have developed drastically with average 10 percent annual growth rate. Overtaking Japan in 2010, China has become the second largest economy in the world. Some scholars found that the authoritarian state's planning has functioned favorably to the economic growth of China, whereas some others believe that the government's planning in fact contributed little to the growth. The former insists that China should be considered as the last heir of the developmental state model, while the latter claims China must be distinguished as a "Chinese model".

This study, in recognition of such divergent interpretations of China's rise, aims to explore the industrialization process of China, and to examine whether China can be categorized into a developmental state. The focused time period of this study is from 1978 to 1991. 1978 was the year when the reform in China was first initiated in the Third Plenum of the 11th Central Committee Congress of the Communist Party, while 1992 was the year when the China's direction toward economic development was

consolidated with the Deng Xiaoping's Southern tour. This time period, in this study, is referred to as Deng's era.

This period of time was chosen in order to guarantee meaningfulness of the study based on the three reasons; first, setting research period as above is particularly meaningful, given that this period of time determined the developmental trajectory of China; second, this is the period of time which laid the foundation of current China; third, Deng's era created the new brand socialist thinking, which is usually called "Socialism with Chinese characteristics".

This paper is organized in the following manner. In Section 2, various discussions regarding the theory of developmental state are briefly examined. Also, an over-all analytical framework of this study is introduced. Section 3 examines the Chinese state's autonomy-sustaining capacity from domestic enterprises and from civil society. In the section 4, goal-achieving capacity of China is analyzed with the particular focus on their industrial policies. Section 5 concludes the study with the final remark.¹⁾

II. Background

1. Developmental State, State Autonomy, and State Capacity

The phenomenal economic growth of East Asian economies among a

1) [Clarification] In this study, the term, "state" is used to refer to "central state", not "local state". This is because China adopts "democratic centralism" as stated in Article 3 of the Constitution of the People's Republic of China.

number of newly independent Third World countries after the end of the Second World War produced various interpretation of many scholars. Firstly, spotlighting the outward-oriented policies of the economies, neo-classic economics advocates claimed that it is market incentives and strong private sectors which should be credited to the unique performance of the East Asian economies.²⁾ Yet, such explanation had been rebutted by lots of empirical counterevidence suggested by institutionalist scholars. They found that in the 'late development economies', states have played a strategic role in harnessing market force for national interests, and developing economy. In other words, in the East Asian newly developed economies, "market rationality has been constrained by the priorities of industrialization"³⁾, which has been set as a primary goal of the states by state officials. Shortly, according to the institutionalist scholars, the presence of such a particular type of the state has been regarded as the key to success of the newly-industrialized East Asian economies. This unique type of state has been labeled as a "developmental state".

The term, "developmental state", made its official debut with groundbreaking publications of Chalmers Johnson's seminal work on East Asian economies, in particular, Japan.⁴⁾ Johnson's studies were followed by a number of valuable attempts to conceptualize a "developmental state".⁵⁾ As a result

2) Bela Valassa, "The Lessons of East Asian Development: An Overview." *Economic Development and Cultural Changes*, Vol. 36. 1988, pp. 173~290; Walter Galenson (ed.) *Foreign Trade and Investment: Development in the Newly Industrializing Asian Economies*. Madison: University of Wisconsin Press, 1985; World Bank, *The East Asian Miracle: Economic Growth and Public Policy*. Oxford University Press, 1993.

3) Ziya Onis, "The Logic of Developmental State." *Comparative Politics*, Vol.24, No. 1, 1991, pp. 109~126.

4) Chalmers Johnson, "Introduction: The Taiwan Model" in James C. Hsiung (ed.) *Contemporary Republic of China: The Taiwan Experience, 1950-1980*. New York: Praeger, 1981; Chalmers Johnson, *MITI and the Japanese Miracle*. Stanford, CA: Stanford University Press, 1982.

of such attempts, the theory of the developmental state has developed further. Based upon the previous works by prominent scholars, this paper defines a developmental state as “a state which has sufficient autonomy and capacity at the center to shape, pursue, and achieve the state’s explicit goal”.

Given this definition, it can be said that state autonomy and state capacity are the two prerequisite to be categorized into a developmental state. Here, the two concepts of state autonomy and state capacity have been explored in a variety of theoretical and empirical contexts; therefore they can be defined in various ways. Nevertheless, in general, states autonomy means state’s ability to “formulate and pursue goals that are not simply reflective of the demands or interest of social groups, classes, or society”,

5) Fredric C. Deyo, “Introduction” in Fredric C. Deyo (ed.), *The Political Economy of the New Asian Industrialism*. Ithaca, NY: Cornell University Press, 1987; Peter B. Evans, “Transnational Linkages and the Economic Role of the state: An Analysis of Developing and Industrialized Nations in the Post–World War II Period.” in Peter B. Evans (ed.) *Bringing the State Back in*. New York: Cambridge University Press, 1985; Robert H. Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton, NJ, Princeton University Press, 1990; Gordon White and Robert H. Wade, Jack Gray, *Developmental States in East Asia*. New York: St. Martin’s Press, 1988; Alice Amsden, *Asia’s Next Giant: South Korea and Late Industrialization*. New York, Oxford University Press, 1989; Chalmers Johnson, “Political Institutions and Economic Performance: the Government Business Relationship in Japan, South Korea and Taiwan.” in Fredric C. Deyo (ed.) *The Political Economy of the New Asian Industrialism*. Ithaca, N: Cornell University Press, 1987; Leftwich, Adrian, “Bringing the Politics Back In: Toward a model of the developmental state.” *The Journal of Development Studies*, Vol. 31, No.3, 1995, pp. 400–427; Larry L. Burmeister, “Warfare, Welfare and State Autonomy: Structural Roots of the South Korean Developmental State.” *Pacific Focus*, Vol. 1, No. 2, 1986, pp. 121–146; Roger Charlton and David Donald, “Bringing the Economy back In: Reconsidering the Autonomy of the Developmental State.” *Scandinavian Journal of Development Alternatives*, Vol. 14, No. 1/2, 1995, pp. 55–84; Peter B. Evans, “Class, State and Dependency in East Asia: Lessons for Latin Americanists.” in Fredric C. Deyo (ed.) *The Political Economy of the New Asian Industrialism*. Ithaca, NY: Cornell University Press, 1987; Hawes G. and H. Liu, “Explaining the Dynamics of the Southeast Asian Political Economy, State, Society and the Search for Economic Growth.” *World Politics*, Vol.45, No.4, 1993, pp.620–660; Ziya Onis, “The Logic of Developmental State.” *Comparative Politics*, Vol. 24, No. 1, 1991, pp.109–126.

while state capacity refers to state's ability to "implement official goals, especially over the actual or potential opposition of powerful social groups or in the face of recalcitrant socioeconomic circumstances."⁶⁾ Postulating that state autonomy and state capacity are the two major criteria of a developmental state, this study examines the Chinese state's autonomy and capacity during Deng's era.

In fact, there have been many studies attempting to answer the question of whether China can be categorized into a developmental state. Some scholars argued that it is the government intervention of China which should be attributed to the success of their economic growth, and that China is following the developmental state model. For instance, Baek argues that as the Chinese central government holds the ownership of many large-sized SOEs which are at the center of Chinese economy with huge share of gross industrial output value, it can still manipulate nationwide economy when necessary. He therefore believe China should be considered the another example of the developmental state.⁷⁾ Those who view China as a developmental state tend to place emphasis on the fact that government still possesses tremendous leeway to indirectly influence economy⁸⁾ and that it is macroeconomic policy of Chinese central government, especially serious exchange rate depreciation, which was the most important component of China's external success at least until the mid-1990s.⁹⁾ Conversely,

6) Theda Skocpol, "Bringing the State Back In." In Peter B. Evans (ed.) *Bringing the State Back In*. Cambridge: Cambridge University Press, 1985, p. 9.

7) Baek Seung-Wook, "Does China Follow "the East Asian Development Model"?" *Journal of Contemporary Asia*, Vol. 35, No.4, 2005, pp. 485~498.

8) Alberto Gabriele, "The Role of the State in China's Industrial Development: A Reassessment." *Comparative Economic Studies*, Vol. 52, 2010. pp. 325~350.

9) Wang Tao, "China: Sources of Real Exchange Rate Fluctuations." IMF Working Paper, WP/04/18, 2004.

Free-market theory advocates deny the “developmentalistic” aspect of China, and ascribe China’s economic growth to the market-oriented structure of China. They maintain that competitiveness of China came not from the central government-planned sector but from market forces spontaneously with private industry and FDI, focusing on the fact that non-state sectors such as private enterprises and foreign invested enterprises, which were out of financial support by the government.¹⁰⁾

Notwithstanding such diverse studies, not many studies took into consideration state autonomy and state capacity, let alone emphasize them. In this regard, this study, delving into autonomy and capacity of the Chinese state, can be deemed distinct. However, before examining state autonomy and state capacity of the Chinese state, the question of what the goal of the two states was during Deng’s era must be answered first. This is because state capacity, meaning the capacity to “implement official goals”, may be analyzed differently, depending on how the state’s goal is defined.

2. State Goal : Industrialization

Admittedly, a state’s goal is subject to change as time goes. However, when it comes to China in the 1980s, there has been a general consensus that the primary goal was “economic development”. Although several factors

10) Stephan Haggard and Huang, Yasheng, “The Political Economy of Private Sector Development in China.” in Brandt, Loren and Thomas G. Rawski, eds., *China’s Great Economic Transformation*. Cambridge University Press, 2008; Nicholas R. Lardy, *China in the World Economy*. Washington, D.C: Institute for International Economic, 1994; Thomas G. Moore, “China as a Latecomer: Toward a Global Logic of the Open Policy.” *Journal of Contemporary China*, Vol.5, No.12, 1996, pp. 187~208.

can be attributed to the country's setting economic development as its goal, there are three significant elements which should be given a due attention: Cold War rivalry, presence of external threat, and domestic legitimacy. First of all, under the Cold War rivalry, China, belonging to the socialist bloc, was required to represent the superiority of the bloc. Needless to say, economic development was one of the best ways to demonstrate the superiority. Thus, China's determination to pursue economic development must be analyzed in the context of the Cold War rivalry. Second, the presence of direct external threat, namely Taiwan, should be pointed as another driving force for China's seeking economic growth during the given period. Given that there has commonly been a close linkage between the military strength and the economic capacity, existence of threat to a state must have produced a concrete purpose to seek development.¹¹⁾ Additionally, internal rivalry and conflict vis-à-vis the USSR within the Socialist bloc must have urged the Chinese state to pursue rapid industrialization. Lastly, the Chinese state was dependent on the economic growth for its source of legitimacy. Several years of economic stagnation and political upheaval during the pre-reform period had seriously debased the political legitimacy of the Chinese Communist Party (CCP). Under such circumstances, it was necessary for the reformist CCP leaders to seek a new form of legitimacy by resorting to economic development.¹²⁾ Putting it differently, for the leaders of China during

11) John Knight, "China as a Developmental State." CSAE Working Paper WPS/2012-2013, 2012; Joel S. Migdal, *Strong Societies and Weak States: State-Society Relations and State Capacities in the Third World*. Princeton, NJ: Princeton University Press, 1988, pp. 269-277.

12) Andrew Walder, *China's Transitional Economy: Interpreting its Significance*. London: Oxford University Press, 1996.

Deng's era, political survival hinged on economic performance. Hence, on the premise that economic development was a sole primary goal of the Chinese state during 1978~1992, this study will examine the country's state autonomy and state capacity.

3. Analytical Framework

It is widely believed that China had a relatively high degree of state autonomy at the beginning of Deng's era.¹³⁾ Emergence of autonomous state in China resulted from a combination of diverse factors. First of all, owing to the nature of the socialist state, the state had been rendered extremely high degree of autonomy. Under the socialist rule, the state enjoyed monopolistic power with omnipresent regulations which successfully eliminated all the private sector and which put the collective sector under the tight state control. Local governments were expected to represent the mere interest of the central state and granted little discretion over resource use and decision-making. Moreover, all the dominant classes with capability to challenge state's autonomy had been eliminated through the experience of quasi-colonial rule of the West, land reform, and civil war. Furthermore, Cold War politics created a society where all the incipient political organizations could be crushed by the state in the name of "anti-communist". In short, it is obvious that, having deliberately crushed all competing societal entities, the communist state had been insulated

13) Shaoguang Wang, "The Rise of the Regions: Fiscal Reform and the Decline of Central State Capacity in China." in Andrew G. Walder, eds., *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary*. Berkeley: University of California Press, 1995, pp. 87~113.

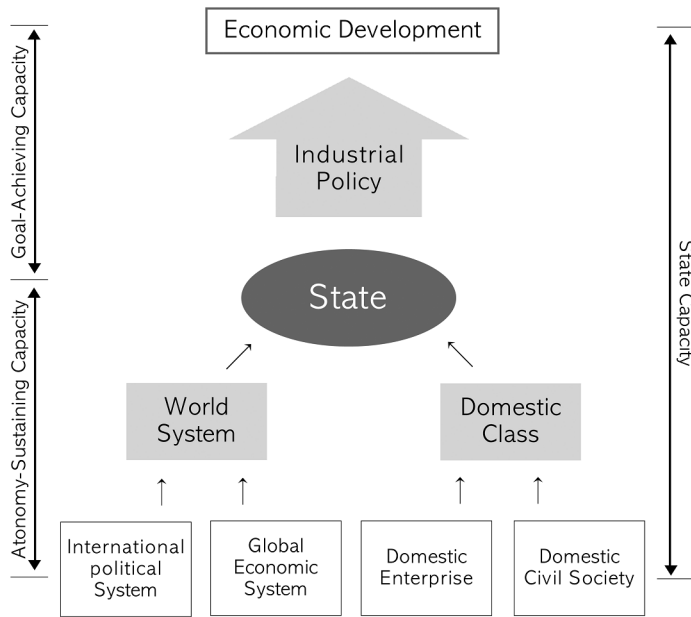
from other social classes, and enjoyed high degree of autonomy at the beginning of Deng's era.¹⁴⁾

In recognition of the fact that the Chinese state inherited the relatively high degree of autonomy from the legacy of the past, this study divides the state capacity into two levels: autonomy-sustaining capacity and goal-achieving capacity. Autonomy-sustaining capacity means the state's capacity to maintain its autonomy which the states already possess by isolating itself from i) world system and ii) domestic classes. Given that the state cannot achieve its goal on its own if sufficient autonomy is not guaranteed, autonomy of a state is the foundation in achieving state's goal; therefore, it is prerequisite for a state to attain its goal. In other words, without autonomy-sustaining capacity, state cannot achieve its goal in the face of opposition of recalcitrant social groups. In this sense, autonomy-sustaining capacity is a necessary condition for a state to achieve its goal. Yet, it is not a sufficient condition; a state is still required to have capacity to implement policies which can realize the goal. This capacity is called goal-achieving capacity. The typical case of this sort of state which has sufficient autonomy but no capacity is many African predatory states.¹⁵⁾ Illustrated on the next page is the analytical framework for measuring state's autonomy-sustaining capacity and goal-achieving capacity.

As elements influencing the autonomy of state, two forces can be pointed: world system and domestic classes. Again, the world system can be divided into i) international political system and ii) global economic

14) Ibid.

15) Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation*. Princeton University Press, 1995.



system, while domestic class consists of i) domestic enterprises and ii) domestic civil society. In other words, in order for a state to be capable of formulating and implementing its own goals, it must be somewhat insulated from the world system – that is, international political system and global economic system – and domestic class – that is, domestic enterprises and domestic civil society. A notable fact is that during the period of 1978–1992, China had successfully maintained its autonomy from the world system. Politically, it was under the Socialist side of the Cold War political dichotomy. Although tension was slightly relaxed with détente and Sino–US rapprochement in the 1970s, it is still evident that because a sustained tension between capitalist and socialist bloc had been

sustained, the international politics had been dominated by the Cold War, during the entire period of Deng's era. Thanks to the Cold War politics, China was able to insulate itself from the opposite side of the bloc, remaining unaffected.

Due partially to this Cold War politics and partially to the absence of globalization, the Chinese state, during Deng's era, has maintained its autonomy from global economic system as well. FDI inflow in China was virtually nil at the beginning of the reform in the late 1970s. From 1982 to 1992, net flows FDI of China accounted for only 0.89 percent of its total GDP.¹⁶⁾ In effect, the surge of FDI inflow occurred since 1992, when the Chinese state decided to liberalize FDI regime.¹⁷⁾ To sum up, it can be concluded that the Chinese state has been insulated from international political system and global economic system, successfully maintaining its autonomy during the given period of time. Now that the Chinese state has sustained its autonomy from the world system, this paper will only analyze its sustainability of autonomy, that is, autonomy-sustaining capacity, from domestic dimensions, specifically, from i) domestic enterprise and ii) domestic civil society. While it is not doubttable that state autonomy must be sustained for a state to effectively achieve its goal, as stated above, it is misleading to think that autonomy is in itself sufficient for goal-achieving. Thus, the other significant capacity for the state to be called "developmental state" is the goal-achieving capacity. As a means to analyze state's goal-achieving capacity, this study will employ various industrial policies of the Chinese state.

16) World Development Indicator.

17) Huang Yasheng, *Selling China: Foreign Direct Investment During the Reform Era*. New York: Cambridge University Press, 1989, p. 92.

III. Sustaining Autonomy from Domestic Classes

1. Autonomy from Civil Society

Just like other developmental states which are generally built upon environment where civil society has been crushed or weak, China also had enjoyed quite high degree of state autonomy against civil society even before the reform. Civil society, in this study, is the “totality of social institutions and associations, both formal and informal, which are not strictly production-related nor governmental or familial in character.”¹⁸⁾ Upon his victory in 1949, Mao Zedong, as an attempt to consolidate his rule and to establish the ideal socialist state, intentionally eliminated “all organizations and internationals not governed by the CCP”.¹⁹⁾ Even personal relations and individual thought and ideology were subjected to the party scrutiny and regulation. In short, all the entities which could be labeled as civil society had been destroyed in China before the reform. Yet, this does not mean that there were no activities of citizens. As a matter of fact, between 1949 and 1978, China saw “several mass movements in which citizens vented their frustrations at particular social groups such as landlords, intellectuals, capitalists, bureaucrats, and so on”.²⁰⁾ However, the movements in general were not in an organized form, and most of them were initiated by the state’s mobilization. In this sense, it can be

18) Dietrich Rueschemeyer, Evelyne H. Stephens, and John D. Stephens, *Capitalist Development and Democracy*. Cambridge: University of Chicago Press, 1992, p. 6.

19) Thomas B. Gold, “The Resurgence of Civil Society in China” *Journal of Democracy*, Vol. 1, No. 1, 1990, pp. 21.

20) *Ibid.*

said that civil society, if any, had merely been in the infant stage before the 1978 reform.

Since the reform in 1978, the Chinese civil society started to experience the fundamental changes, albeit very slowly. The populace found that despite the state's restriction and regulations, the general trend was towards increasing openness. As the state's control abated and direct supervision of the party was relinquished, embryonic form of civil society came into being. Yet, the Chinese state responded to the emergence of civil society with suppression because it was followed by truly spontaneous mass political movements expressing citizens' social discontent. This tendency can be found in the student demonstrations in 1986. On December 5, 1986 student at the University of Science and Technology in Hefei, having discontent to their absence of the right to nominate candidates for the People's Congress, held a meeting to demand the right. The meeting resulted in a three-hour demonstration on December 9, which is the anniversary of student protests against Japanese aggression in 1935. The demonstration was immediately spread out to the neighboring regions such as Wuhan and Shanghai, followed by another round of student demonstration in each region. The demonstration culminated around December 20 as students not only put up a number of wall posters expressing their dissatisfaction but also rallied in front of local offices. In response to the student-led demonstrations, the Chinese state took a strong stand, forming a committee to oversee the student demonstrations and passed a regulation which could virtually forestall the students' gathering.²¹⁾

21) Julia Kwong, "The 1986 Student Demonstrations in China: A Democratic Movement?" *Asian Survey*, Vol. 28, No. 9, 1988. pp. 970~985.

Another similar attempt to suppress the civil society is the case of handling of the Tibetan demonstration. Between September 1987 and March 1989, nationalist Tibetans held several demonstrations against the occupation of China on their territory and the severe restriction imposed on their religion. The state again reacted to the demonstration in a forceful manner. It repressed the unrest by imposing martial law on the Tibetan capital of Lhasa in March 1989 and even by using Chinese armed forces.²²⁾

The Chinese state's stance on the emerging civil society can be best demonstrated through the Tiananmen Square incident. In 1989, citizens gathered in front of Tiananmen Square in order to commemorate the death of Hu Yaobang. However, the mourning crowd became radicalized as time went, and turned into a mob venting their frustrations and displeasure against the Chinese state. Students organized a massive rally to which workers also joined later. The Chinese state dispatched the People's Liberation Army and surrounded the city in June 2, and repressed the protest in June 4 through the military assault. Although the exact number of casualties remained unconfirmed, at least 1,000 lives were lost in the course of the crackdown, according to the report of Amnesty International.

As seen through such incidents, it can be said that while civil society in China began to be formed after the 1978 reform, the Chinese state took quite strong stance when civil society was against it, and repressed the civil society even with a military means. Regardless of whether the draconian suppression was right or wrong, it is clear that the Chinese

22) Thomas B. Gold, "The Resurgence of Civil Society in China." *Journal of Democracy*, Vol. 1, No. 1, 1990, pp. 21.

state, between 1978 and 1992, had been isolated from civil society, and remained autonomous. In other words, the state was obviously capable of sustaining its autonomy from domestic civil society.

2. Autonomy from Domestic Enterprise

Before the advent of Deng's era, China adhered to the ideal central planning model with unified fiscal system adopted in the early 1950s. At that time, all enterprise profit and funds throughout the whole country were required to be centralized to the state budget.²³⁾ Under this orthodox socialist system, the Chinese state was able to enjoy absolute autonomy from all enterprises, and had rigid control over all monetary circulation. However, this dogmatical Leninist-state model, in the face of negligence of incentive mechanism for local governments and enterprises, failed to achieve expected growth. Consequently, China was caught in the mire of economic stagnation. In 1978, leaderships of the CCP, recognizing such problems of the central planning, partially embraced capitalist aspects and implemented reforms. The reform can be explained in two different aspects: fiscal decentralization and deregulation. Through fiscal decentralization of control over resources and decision-making power to localities, local governments were conferred the discretion over the fiscal surplus or residual.²⁴⁾ Moreover, through deregulation, enterprises were allowed to retain a larger proportion of profit for their own use.²⁵⁾

23) Nicholas R. Lardy, *Economic Growth and Distribution in China*. Cambridge University Press, 1978.

24) Jean C. Oi, "The Role of the Local State in China's Transitional Economy." *The China Quarterly*, No.144, p. 1137, 1995.

This paper argues that, although these reform policies was milestone of the Chinese history, and reinvigorated the China's economy, they both have debilitated the autonomy of the Chinese state; fiscal decentralization resulted in the decline of central state's autonomy over non-state-owned enterprises, while deregulation weakened the central state's autonomy over state-owned enterprises (SOEs). Firstly, fiscal decentralization, granting local governments rights to retain the fiscal residual, produced an incentive mechanism for local governments to seek economic growth. This engendered the expansion of township and village enterprises (TVEs).²⁶⁾ During the pre-reform era, due to the constraint of the state plan and Maoist fiscal system, localities had little, if not none, inducement to generate additional revenue. Being required to hand over all or most of the revenues made within the locality to the upper levels, local governments had to be dependent on the budget allocation of central state for expenditure. Under such a centralized fiscal system, localities' incentive was geared not to initiate growth but to enlarge budget allocation provided from the upper level.²⁷⁾ However, fiscal decentralization during the early 1980s drastically changed the incentive structure of the local governments. Being mandated to retain the fiscal surplus, local governments in China fully developed into entrepreneur devoting to the growth of localities through promotion of development of TVEs. As a consequence, the number of TVEs had been

25) Shaoguang Wang, "The Rise of the Regions: Fiscal Reform and the Decline of Central State Capacity in China." in Andrew G. Walder, eds., *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary*. Berkeley: University of California Press, 1995, pp. 87~113.

26) TVE in this study is interpreted in the broad sense to include household-run and jointly-owned private enterprises.

27) Jean C. Oi, "The Role of the Local State in China's Transitional Economy." *The China Quarterly*, No.144, 1995, p. 1137.

skyrocketing and their share in GDP also grew rapidly. Considering that initiative of private entrepreneurship had been almost annihilated, and that private entrepreneurs were still incipient due to the fresh memory of persecution of private enterprise during the Maoist era, TVEs, usually owned by local officers, have led the economic growth of China during the transition period.²⁸⁾ However, rise of local initiative and expansion of TVEs, albeit conducive to the growth of China as a whole, undermined autonomy of the Chinese state. Losing control over the fiscal surplus within localities, the state's power to mobilize the financial resources to pursue its goal also declined.

Secondly, deregulation, which allowed the SOEs to retain the large proportion of profit in the hope that it would motivate state enterprise to pursue greater efficiency and become more lucrative, also compromised state autonomy of China. Before 1978, state enterprises were required to remit whatever profit they made to the central state which, in return, provided financing for the enterprises' production and investment. In the absence of the incentive mechanism, state enterprises were not motivated to generate profit during this pre-reform era.²⁹⁾ Yet, deregulation was designed to foster incentive for the SOEs to initiate economic growth by giving the approval to retain profits. Thanks to this scheme of profit retention, enterprises were able to enjoy larger and larger share of their

28) Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform*. London: University of California Press, 1999; Enrico C. Perotti, Laixiang Sun, Liang Zou, "State-owned versus Township and Village Enterprises in China." Working Paper No. 150, The United Nations University, World Institute for Development Economic Research, 1998.

29) Shaoguang Wang, "The Rise of the Regions: Fiscal Reform and the Decline of Central State Capacity in China." in Andrew G. Walde., eds., *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary*. Berkeley: University of California Press, 1995, pp. 87~113.

profits retention throughout the 1980s. In 1978, the ratio of retained profits to total profits was less than 5 percent. Yet, it began to increase drastically since the reform, and underwent 14 fold increases even with conservative estimation while total profit grew only 170 percent by 1987.³⁰⁾ It is apparent that the increase of retained profits had eroded the revenue of the central state. And, again, increasing fund off the control meant declining autonomy of the Chinese state.

Declining state autonomy of the Chinese state can be proved by the increased volume of extrabudgetary fund. The combination of fiscal decentralization and deregulation mentioned above engendered the rapid increase of extrabudgetary fund retained by local governments and SOEs. The volume of extrabudgetary funds which was merely 34 billion yuan at the beginning of the reform in 1978 underwent a phenomenal increase, reaching 324 billion yuan in 1991. The growth rate of extrabudgetary funds had been consistently higher than that of national income, and thus its share within the national income also increased from 11.5 percent to 20.1 percent during the same period.³¹⁾ Given that extrabudgetary funds indicates the funds that are not subject to central budgetary control and that are not recorded in formal budget, its increase means that central state is losing its control over the financial resources that are required to pursue and realize its goal. In other words, it means decline of the central state's capacity to sustain autonomy from both state-owned and non-state-owned enterprises.

30) Ibid.

31) General Planning Department of Ministry of Finance, *China Finance Statistics*. Beijing: Science Press, 1992, pp. 13-14.

<Table 1> Growth of Budgetary Funds, Extrabudgetary Funds, and National Income
(in 100 Million yuan)

Year	Budgetary Income	Extrabudgetary Income	National Income
1978	1121.12	347.11	3010
1979	1067.96	452.85	3350
1980	1042.22	557.40	3688
1981	1016.38	601.07	3941
1982	1040.11	802.74	4258
1983	1169.58	967.68	4736
1984	1424.52	1188.48	5652
1985	1776.55	1530.03	7020
1986	2022.01	1737.31	7859
1987	2199.35	2028.80	9313
1988	2357.24	2360.77	11738
1989	2664.90	2658.83	13176
1990	2937.10	2708.64	14384
1991	3149.48	3243.30	16117

Source : General Planning Department of Ministry of Finance, *China Finance Statistics [Zhongguo Caizheng Tongji]*. Beijing : Science Press, 1992, pp. 13~14, 19, 339 (In Chinese)

To sum up, during Deng's era, fiscal decentralization and deregulation caused the erosion of the Chinese state's power to control financial resources within its territory. Considering that state without sufficient financial resource should be dependent on the other entities to pursue its goal, it can be said that the reform, while spurring economic growth of China, inevitably weakened autonomy of the Chinese state during Deng's era. Therefore, the state's capacity to sustain autonomy from domestic enterprises also declined.

IV. Achieving Goal through Industrial Policy

As stated in Section II-3, the second capacity for a state to be classified as a developmental state is its goal-achieving capacity, meaning the state's capability to actually implement policies through which what is perceived as a goal can be accomplished. Considering that a number of newly independent states which had sufficient degree of autonomy failed to realize their goal after the end of the Second World War, the significance of goal-achieving capacity should not be undervalued. Postulating that the goal of the Chinese state was economic development (Section II-2), this study will analyze the goal-achieving capacity of the Chinese state through its industrial policies. Although industrial policy can be defined in various ways, the term, in this context, is used to include virtually all policies implemented for the purpose of industrializing the states such as tariff, import restriction, export subsidies, low-interest loans and government support for research and development.³²⁾

In China, industrial policy between 1978 and 1992 mainly aimed at balanced growth, in particular, supply of sufficient goods in bottleneck sectors.³³⁾ At first, the sector where the economic bottleneck phenomenon was found was the light industry because of the massive investment in heavy industry and relative negligence of light industry during the Mao's

32) Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy*. New York: Addison Wesley, 2003, p.271.

33) Ji Man-Soo, Choi Ui-Hyun, Lee Nam-Joo, Kim Suk-Jin, and Baek Kwon-Ho, *Development of China's firms and Industries : The Impact of Korea*. Seoul: Korea Institute for International Economic Policy (KIEP), 2005, pp. 78-80 (*in Korean*); Zang Xiaoji and Long Guoqiang, "China's Industrial Policies in the Process of Marketization." in Seiichi Masuyama, Donna Vanderbrink & Chia Sion Yue (ed.) *Industrial Policies in East Asia*. Tokyo: Nomura Research Institute, 1997.

era. In response to this, the Chinese state adopted the strategy which promoted development of agriculture and light industry in April 1979. Obviously, the growth imbalance between light industry and heavy industry was resolved, thanks to the light industry promotion policy (see Table 2). However, the problem was that the light industry and processing industry, being marketized first, became too much overheated and expanded more rapidly than central leaders would like.³⁴⁾

<Table 2> Growth Rate of Light/Heavy Industry and Contribution to Industrial Growth

		Growth Rate (Contribution)					
		1979 ~ 1984		1985 ~ 1990		1991 ~ 1994	
Light Industry		11.7 (59.2)		12.2 (51.6)		19.3 (48.2)	
Heavy Industry	Mining	6.6 (40.8)	2.9(2.2)	11.4 (48.4)	6.1(3.0)	20.4 (51.8)	9.2(2.0)
	Raw Material		6.5 (14.0)		10.3 (15.6)		15.1 (12.2)
	Processing		7.9 (24.7)		13.3 (29.7)		26.6 (37.6)

Source : Guokesha, *Study of Industrial Growth [Gongyehengzhangzhiliangyanjiu]*. Beijing: Economy Management Press, 1998, p. 12 (*In Chinese*) [compiled]

In order to attain balance growth by cooling down the overheated light industry and processing industry, the Chinese state made several efforts. This was the time that the term “industrial policy” was first introduced in China in the 7th five-year plan (1986–1990) which was ratified in 1986. In the second chapter of this paper, titled as “Industrial Structure and Industrial Policy”, it is stipulated that the industrial policy aimed at

34) Lee Nam-Joo, “Changing Process of Industrial Policy of China and the Cause after Reform.” *Modern China*, Vol. 3, 2001, pp. 5~41 (*in Korean*).

encouraging development of energy and raw material industry and at curbing exponential growth of processing industry.³⁵⁾ Clearly, the aim of industrial policy at that time was balancing growth among sectors. As an attempt to achieve the aim, the Chinese state granted petroleum industry the rights to export the production exceeding the assigned volume. In addition, the state has provided preferential loans to construction enterprises related to energy sector, transportation sector, raw material sector, and communication sector.³⁶⁾

Notwithstanding such efforts of the Chinese state, the imbalance between light and processing industry and other industries have only been deepened. This was because of the local governments and TVEs which were motivated to seek high-profit business, thanks to the reform. Having been granted the right to surplus disposal since the reform, localities had strong incentive to invest in lucrative projects which they believed could maximize their revenue. Usually, the projects were light industry or processing industry because of the increasing demand for daily commodities. The Chinese state, losing the authority by reform to effectively orchestrate local governments, was not able to deter localities' investment in these industries. As a consequence, China, in the 1980s, saw "small cigarette factories, small breweries, small textile mills, small home electronic appliance plants, and the like springing up". On the contrary, investment in sectors that the Chinese state encouraged, but localities found

35) Sebastian Heilmann and Lea Shih, "The Rise of Industrial Policy in China, 1978–2012." Harvard–Yenching Institute Working Paper Series, 2013.

36) Shaoguang Wang, "The Rise of the Regions: Fiscal Reform and the Decline of Central State Capacity in China." in Andrew G. Walder (ed.) *The Waning of the Communist State: Economic Origins of Political Decline in China and Hungary*. Berkeley: University of California Press, 1995, pp. 87–113.

no incentive for investment, such as energy, raw material, transport and communications, was lagging far behind that in light and processing industries. Needless to say, the result was exacerbated bottleneck problems.³⁷⁾ In order to solve these problems, State Council established a special Industrial Policy Division under the State Planning Commission in 1988. In March 1989, the newly founded body proposed an industrial policy plan.³⁸⁾ Although the plan is deemed as the very first industry policy designed systematically, it merely sought to cool down the overheated economy through retrenchment policy. Furthermore, since the plan included over 300 industries which were subject to promotion or impediment without specifically targeted industries, it had little impact over the Chinese economy.

Between 1978 and 1992, the Chinese state made several attempt to modernize the country through several industrial policies, as seen above. Nonetheless, having no authority to control localities and to mobilize required financial resources, the Chinese state's attempts all failed to bring about the expected result. As a matter of fact, it is widely believed that substantive industrial policy with actual influence was first introduced after 1992, as the special Industrial Policy Division issued "The 1990s Industrial Policy Outline" in 1994. Before that, the Chinese state was not capable of formulating industrial policy which could produce economic growth. In other words, rapid economic growth during Deng's era came from locality spontaneously and was not intended by the Chinese state. The Chinese state, between 1978 and 1992, did not have sufficient goal-achieving capacity.

37) Ibid.

38) Sebastian Heilmann and Lea Shih, "The Rise of Industrial Policy in China, 1978-2012." Harvard-Yenching Institute Working Paper Series, 2013.

V. Conclusion

This study attempted to answer the questions of whether China can be classified as a developmental state between 1978–1992. For a state to be deemed as a developmental state, that is a state which formulate its goal and implement the policy which can realize the goal in the face of opposition of social group, it must have both state autonomy and state capacity. Given that China during Deng's era inherited a relatively high degree of state autonomy from the legacy of the past at the beginning of the regime, this study postulates autonomy–sustaining capacity and goal–achieving capacity for two major criteria for a developmental state. The autonomy–sustaining capacity divided into four: autonomy from international political system, autonomy from global economic system, autonomy from domestic enterprise, and autonomy from domestic civil society, of which the latter two are the subject of this study. And, in order to analyze goal–achieving capacity of the state, industrial policy of China was employed.

This study found that, in China during Deng's era, the state failed to sustain its autonomy from domestic enterprises, although it did have autonomy from civil society. The Chinese state's autonomy over civil society had definitely been maintained between 1978 and 1992, as seen in Tiananmen Square incident in 1989. However, the state, conferring the right to retain residual and large proportion of profit to local governments and enterprises, lost its autonomy from domestic enterprises of both state–owned and non–state–owned. In other words, even though it is true that the reform succeeded in invigorating stagnating Chinese

economy, the Chinese state's autonomy from enterprise became weakened due to the reform. Local governments, allowed to retain residual, thanks to fiscal decentralization, were eager to promote local economy to maximize their revenue by establishing a myriad number of TVEs. Rise of local initiative and expansion of TVEs, albeit conducive to the growth of China as a whole, undermined autonomy of the Chinese state. Likewise, SOEs, having right to large proportion of the profit made, also enjoyed large share of their profits retention in the 1980s. Clearly, increasing retention of profit by localities and SOEs had eroded the revenue of the central state, thus undermining autonomy of the Chinese state. Losing control over the fiscal surplus, the Chinese state also lost power to mobilize the financial resources required to pursue its goal. It is apparent that the Chinese state's capacity to sustain autonomy was merely partial.

Due partly to the lack of autonomy-sustaining capacity, the Chinese state was incapable of generating economic growth through industrial policy. The Chinese state's aim of industrial policy during Deng's era was realizing balanced growth among diverse industrial sectors. As an attempt to this, the Chinese state made several efforts such as establishing a special Industrial Policy Division and providing preferential loans. Notwithstanding such efforts, however, the imbalance among industries has only been widened. This was because local governments, with the right to retain extraordinary budget, sought to maximize their revenue by making investment not in the state-encouraging sectors but in lucrative ones. Though the bottlenecks became aggravated as such, the Chinese state was not capable of solving the problems since it already granted the authority to retain residual to localities. In other words, the Chinese

state did not have sufficient capacity to achieve its goal of economic growth during Deng's period.

In conclusion, it is evident that the Chinese state has gradually lost its autonomy from enterprises during Deng Xiaoping's era even though it sustained its autonomy from civil society. In other words, autonomy-sustaining capacity of the Chinese state was only partial and was insufficient. This insufficient autonomy resulted in the state's lack of capacity to engender economic growth, that is, goal-achieving capacity. Therefore, although it might have some similarities with other developmental states, China, during Deng's era, differed fundamentally from a developmental state model, having insufficient autonomy-sustaining capacity and no goal-achieving capacity.

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ABSTRACT

Did Deng's China Follow A Developmental State Model?
: A Study of State Autonomy and State Capacity
during Deng Xiaoping's era

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This study attempts to find an answer to the question of whether China during Deng's era can be labeled as a developmental state through an analysis of state autonomy and state capacity. Given that China at the beginning of Deng's era inherited a sufficiently high degree of state autonomy, this study divided state capacity into two different levels, that is, autonomy-sustaining capacity and goal-achieving capacity. As a result of the analysis, it was found that China during Deng's era successfully sustained its autonomy from civil society, but not from domestic enterprises. Moreover, even though the aim of industrial policy during Deng's era was to attain balanced growth among diverse sectors, the Chinese state failed to achieve it since the state did not have sufficient capacity to curb exponentially growing light industry and processing industry. In conclusion, this study found that, Deng Xiaoping's China, not having sufficient autonomy-sustaining capacity and goal-achieving capacity, cannot be labeled as a developmental state.

Keywords : State Capacity, State Autonomy, Autonomy-sustaining capacity,
Goal-achieving Capacity, Deng Xiaoping, China's reform

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