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**CHINA**  
*and the*  
**GOLDEN STRAITJACKET OF GLOBALIZATION**

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Never have Westerners had to take other peoples' views seriously. Nor, like the representative of all other great cultures, have we been compelled to take fundamental stock of our own culture, deliberately dismantle large portions of it, and put it back together again in order to survive.

This circumstance has engendered what may be the ultimate paradox, namely that Westerners, who have done more than any other people to create the modern world, are in certain respects the least capable of comprehending it.

— Paul A. Cohen, *Discovering History in China*

## ABBREVIATIONS

China	<i>the People's Republic of China is simply referred to as China</i>
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
IMF	International Monetary Fund
ITO	International Trade Organization
MOFERT	Ministry of Foreign Economic Relations and Trade
Party	<i>the Chinese Communist Party is usually referred to as the Party</i>
SEZ	Special Economic Zone
Trilemma	<i>the Political Trilemma of the World Economy is usually referred to as the Trilemma</i>
TVEs	Township and village enterprises
WTO	World Trade Organization

## TABLE OF CONTENTS

<b>Preface</b> .....	7
<b>Part I - The First Era of Globalization and its Demise</b> .....	9
Post-World War II Economic System.....	10
The Political Trilemma of the World Economy .....	13
The Bretton Woods compromise .....	13
Golden Straitjacket.....	14
Global Federalism.....	17
Deeper Economic Integration in the 1980s.....	20
Implications of Deeper Economic Integration.....	26
<b>Part II - China Enters the Stage</b> .....	32
Introduction.....	32
The Reforms.....	33
Agricultural reform and the success of dual-track pricing.....	36
Township and village enterprises .....	38
Special Economic Zones and foreign investment .....	39
Concluding Remarks.....	41
<b>Part III - Tiananmen Turmoil</b> .....	43
Political Opening in the 1980s.....	43
Escalation.....	45
<b>Part IV - Post-Tiananmen Decisions</b> .....	48
Party Elite.....	48
Intellectual Debate: The Rise of Neoconservatism.....	50
New Chinese Nationalism.....	52
An Economic Explanation for the Feasibility of June 4.....	54

<b>Part V - Economic Implications .....</b>	<b>57</b>
Internationalization and Domestic Politics .....	57
WTO Accession and its Impact on Domestic Legislation .....	59
China in the Global Economy .....	63
<b>Conclusions .....</b>	<b>66</b>
Synopsis .....	66
Prospects .....	68
China's distinct modernity and prospects for democracy .....	68
Prospects for global governance.....	70
<b>Bibliography.....</b>	<b>72</b>

## PREFACE

The re-emergence of China to the world stage in the last decades has caused contentious debates about its implications for the hegemony of the West and the Western idea of modernization. China shows a distinct path towards modernization on which it defies fundamental Western ideas about economic development, globalization and democracy.

In a globalizing world the problems which the world's nations face are converging – the distinctiveness of China is no exception. This assertion applies to decisive predicaments such as climate change, global security or the threat of global pandemics. In the case at hand, however, the statement transcends these issues and refers to the overarching question of how to deal with globalization and the cardinal challenges it poses for national sovereignty and popular legitimacy.

Concerning this question, the European Union which is still in the midst of a potentially devastating crisis endangering peace and prosperity on the whole continent and beyond can draw lessons from remote China's distinct path into a globalized world. Equally, China can draw lessons from political-economic crises in distant South America and its encounters with globalization. China both distinguishes itself from all other nations because of its many peculiarities and merges with the rest of the world because of the resemblance of the challenges it faces.

In order to construct a viable new world order which can cope with mankind's challenges, it is pertinent to learn from the entangled paths each country takes towards its distinct modernity. In this study China's young relationship with globalization is analyzed considering that it is not a case of its own and conclusions can well be drawn that have universal applicability.

China's integration into the world economy has undermined the emergence of democracy. It is embracing economic globalization for the prosperity it promises while accepting the constraints it yields and thus silently shuns popular

participation in its journey towards prosperity. This thesis is scrutinized in the following manner.

It is important to be aware of the historic context in which China's rise takes place. Therefore, *Part I* offers a brief account of the history of globalization from the pre-World War I era of globalization and the post-World War II world economic system to the era of deep integration we currently experience. The political trilemma of the world economy which conceptualizes the challenges an economy faces with globalization is introduced in this context. Part I thus theoretically prepares the analysis how China deals with the challenges posed by globalization.

This analysis of China commences with *Part II* in which its integration into the world economy is presented. In particular, some peculiar reform measures will be shed light upon. Once China has become part of the economic world community, globalization's challenges emerge in the form of political turmoil epitomized by the 1989 demonstrations on Tiananmen square and debated in *Part III*. The responses to Tiananmen are taken in within the context of the political trilemma of the world economy. They are analyzed on the level of the Chinese Communist Party and the intellectual circle in *Part IV*. China's economic integration was far from being completed by 1989; the economic developments after Tiananmen are topic of *Part V*. Finally, conclusions are drawn.



## PART I – THE FIRST ERA OF GLOBALIZATION AND ITS DEMISE

In order to analyze the challenges that world economies are facing as regards the political trilemma of the world economy, it is pertinent to understand the evolution of economic globalization. Therefore this section is dedicated to exploring the course of globalization briefly and how it shaped the current situation.

Many scholars have identified the long century preceding World War I as the first era of globalization. This era of growing interconnectedness was fuelled by the rapid advance in communication and transportation technology, the prevailing economic narrative of ‘free trade is beneficial for all’ put forward by David Ricardo and Adam Smith and the adoption of the gold standard (1870s) which led to stability in exchange rate markets (Rodrik, 2011).

The prosperity and interconnectedness which this first era of globalization brought is remarkable. A famous excerpt from John Maynard Keynes’ *The Economic Consequences of the Peace* which sounds remarkably familiar testifies:

The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages [...]. (Keynes, 1919, p.11)

This era came to a halt with the two World Wars. The profound shift away from the mantra of economic interconnectedness is, once again, bluntly illustrated by John Maynard Keynes who – after ruminating about ‘the inhabitant of London ordering by phone everything he pleases to order’ – stated that he “sympathize[s] [...] with those who would minimize, rather than those who would maximize economic entanglements between nations” (Keynes, 1933). The gold standard which was one of the “awkward and fragile institutional pillars” (Rodrik, 2011, p.34) on which the first era of globalization rested embodies the

temporary retreat of economic interconnectedness. In the midst of the hyperinflation in the early 1920s, especially in Germany, Austria, Poland, and Hungary which marked the onset of the Great Depression, the debate about whether to reinstate exchange rate parities at the prewar level ensued. Ultimately, US President Franklin D. Roosevelt made the decline definite when he decided to leave the gold standard in 1933 to allow for monetary expansion.

Rodrik (2011) identifies three steps which explain the gold standard's decline. First, labor unions had begun to assert themselves and fight for higher wages for their workers. Unlike theory would have predicted, wages no longer served as an adjustment mechanism. Second, "economic policy was becoming democratized" (p. 43). The gold standard could no longer be upheld without any regard for domestic economic conditions such as rising unemployment. Third, markets began to question the credibility of governments to maintain the gold standard because of the growing pressure from the masses. These expectations quickly degenerated into self-fulfilling prophecies which made the maintenance of the gold standard impossible.

As much as the gold standard through fostering economic stability enabled the first era of globalization before the two World Wars it contributed to its decline during the interwar period. Eichengreen and Temin (2000) write that "there now exists agreement among most economists that the gold standard was a key element - if not the key element - in the collapse of the world economy" (pp. 184-5).

The world economy needed a new structure.

#### POST-WORLD WAR II ECONOMIC SYSTEM

In 1944, at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, the new economic world order was designed. It came to be represented by the IMF, World Bank and General Agreement on Tariffs and Trade (GATT) - the Bretton Woods institutions. John Maynard Keynes stressed the importance of this conference and the remarkable achievements agreed upon in the closing session of the conference on July 22, 1944:

We [...] have been trying to accomplish something very difficult to accomplish. [...] It has been our task to find a common measure, a common standard, a common rule applicable to each and not irksome to any. We have been operating, moreover, in a field of great intellectual and technical difficulty. [...]

And I make bold to say, Mr. President, that under your wise and kindly guidance we have been successful. (cited in Harrod, 1951)

The nature of the institutions that emerged from Bretton Woods represents a struggle between two extremes: on the one hand, the liberal internationalist orthodoxy represented by the US and, on the other hand, a stark opposition thereto, i.e. the rejection of “unimpeded multilateralism” (Ruggie, 1982, p. 393). This plays out in the institutional setting as follows.

Each of the three Bretton Woods institution had its distinct objectives. As Meier (1971) summarizes, the IMF was designed as a response to the disintegration of the financial system during the two World Wars and interwar period. The World Bank was destined to foster international investment. The GATT scheme was intended to render protectionist surges impossible and discourage discriminatory trade practices.

The IMF’s first objective was to maintain exchange rate stability. Under the IMF’s statutes exchange rates were normally supposed to be kept stable through appropriate interventions by the relevant governments; however, they could be readjusted (“adjustable peg” or “managed flexibility”, Meier, 1971, p. 239) in case of a “fundamental disequilibrium” (Williamson, 1985, p. 74) – a concept which has never been formally defined. Succinctly, the IMF is supposed to alleviate short-term liquidity crunches of its members and thus ensure exchange rate stability.

The World Bank deals with *long-term* liquidity just as much as the IMF is concerned with *short-term* liquidity. It is supposed to provide funds for long-run investment projects. Recipients of these funds were initially Western European countries in the wake of reconstruction after World War II and later increasingly less developed countries (Meier, 1971).

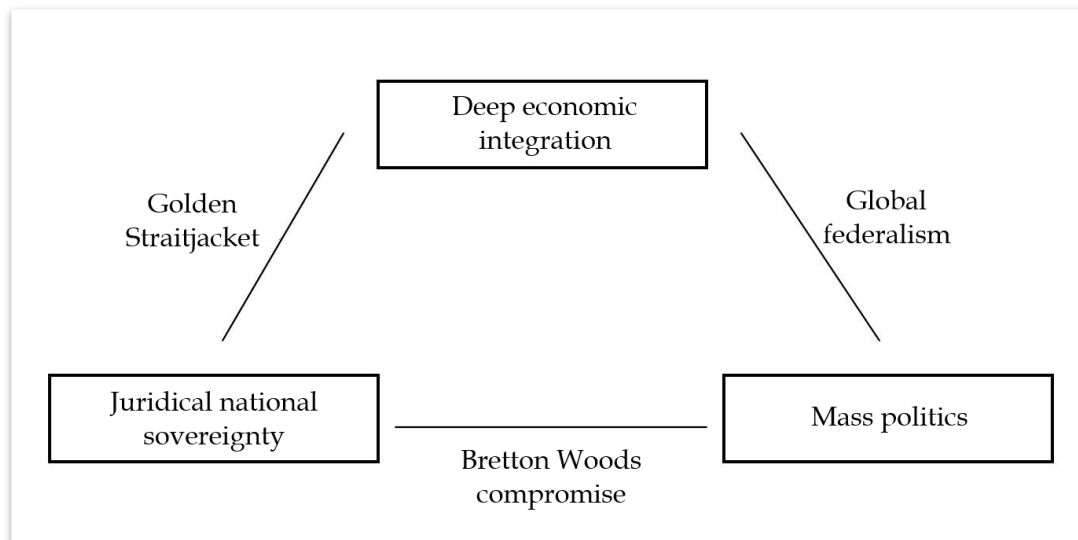
The most interesting institution for the purpose of this work is the GATT. In order to understand the relevance of the GATT agreements, it is telling to consider what has *not* been agreed upon in Bretton Woods. In particular, the ultimately agreed-upon GATT was far less encompassing than what had initially been envisioned with an International Trade Organization (ITO). The ITO would have codified wide-ranging agreements on internationally common labor standards and antitrust rules. Especially the US representatives perceived this as a prohibitively large intervention in national policies and rejected the idea of the ITO (Rodrik, 2011). Ultimately, the GATT emerged as a slim version of the ITO with numerous exceptions which secured the supremacy of national regulation in certain key areas. For instance, agricultural policies have been entirely evaded in GATT negotiations, developing nations enjoyed considerable leeway in designing their policies, and anti-dumping and safeguard clauses left policy-makers sufficient margin to protect national interests. All in all, the “GATT’s purpose was never to maximize free trade. It was to achieve the maximum amount of trade compatible with different nations doing their own thing” (p. 75).

As such, the GATT is the prototype for what Ruggie (1982) aptly termed “embedded liberalism” (p. 392). For Ruggie, [t]he essence of embedded liberalism [...] is to devise a form of multilateralism that is compatible with the requirements of domestic stability” (p. 399). There is a dialectic relationship between liberal orthodoxy and protection of national goals. In other words, “unlike the economic nationalism of the thirties,” the newly established economic regime “would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic interventionism” (p. 393).

The fact that the Bretton Woods system did account for national differences and distinct interests while it renounced full economic integration is a crucial characteristic of the world economy’s structure after World War II. The world was engaged in what has been called the “Bretton Woods compromise” by Rodrik (2002). This concept is derived from a more fundamental choice that the world economy has to deal with when facing the challenges of interconnected markets. This concept deserves elaboration.

## THE POLITICAL TRILEMMA OF THE WORLD ECONOMY

The Bretton Woods system illustrates what Rodrik (2002) has termed the “Political Trilemma of the World Economy” (“Trilemma’ from now on). The basic concept is that the world economy cannot have full economic integration,



**Graph 1.** The Political Trilemma of the World Economy (adopted from Rodrik, 2002)

juridical national sovereignty (also referred to as ‘nationally-distinct jurisdictions’ or the ‘nation-state’), and mass politics organized at the national level at the same time. Mass politics<sup>1</sup> is condensing the idea of a political system in which there is i) an unrestricted franchise (or political scope), ii) a high degree of political mobilization, and iii) a high responsiveness of political institutions to mobilized groups (Rodrik, 2007, p. 200). Similarly to the well-known monetary trilemma, one can only have two out of the three (*cf.* Graph 1).

### *The Bretton Woods compromise*

The Bretton Woods system characterized in the previous section constitutes one solution to the Trilemma. More specifically, in the Bretton Woods compromise deep economic integration is shunned in favor of maintaining nationally distinct jurisdictions and mass politics. With nationally distinct jurisdictions, constituents can comfortably separate international policies from

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<sup>1</sup> If the Trilemma is applied in a Western context, mass politics usually refers to political democracy. However, in the case at hand it is applied to an authoritarian state. Therefore, the term mass politics (which is itself used by Rodrik) is preferred.

domestic policies. In particular, domestic policies enjoy popular legitimacy by the national constituents. Lawrence (1996) vividly illustrates the distinction between global and national policies in times of relatively high “separation fences” (p. xvii) between nations’ borders:

International policies dealt with at-the-border barriers, such as tariffs and quotas, or responded to events occurring abroad. In contrast, domestic policies were concerned with everything behind the nation’s borders, such as competition and antitrust rules, corporate governance, product standards, worker safety, regulation and supervision of financial institutions, environmental protection, tax codes and the government’s budget. Domestic policies were regarded as matters about which nations were sovereign, to be determined by the preference of the nation’s citizens and its political institutions [mass politics], without regard for effects on other nations. (Lawrence, 1996, p. xvii)

Lawrence (1996) also makes the useful distinction between “deep integration” and “shallow integration” (*passim*). The era of the Bretton Woods system is an era of “shallow integration”.

### ***Golden Straitjacket***

In order to illustrate the remaining solutions to the Trilemma, it is reasonable to imagine an economically perfectly integrated world in which there are no boundaries to movement of all factors of production (this section draws heavily on Rodrik, 2011). In perfectly integrated markets national jurisdictions and national policies must be in harmony with internationally-accepted standards. If not, national economies risk being ostracized from the world economy. For instance, multinational corporations have the ability to move to the jurisdiction which offers them the most favorable tax system. All countries start competing with each other by setting ever lower taxes in order to attract these corporations which then offer employment opportunities to national citizens. This process happens similarly for all types of crucial economic policies such as labor standards and environmental standards and leads to an “insulation of economic policymaking bodies (central banks, fiscal authorities, and so on) from political

participation” (Rodrik, 2007, p. 202). Mass politics is abandoned in favor of ‘deep economic integration’ and the ‘nation-state.’ In other words,

[s]et free from politics, the new globalized economy allows companies and market to allocate the factors of production to greatest advantage, and without the distortions of state intervention [shrinking of mass politics]. Free trade, transnational companies and world capital markets have liberated business from the constraints of politics and are able to provide the world’s consumers with the cheapest and most efficient products [...] Business activity is primary and political power has no other task than the protection of the world free-trading system. (Hirst and Thompson, 1996, p. 176)

One can argue that in many (Western) nations such a restriction of democracy by globalization is either under way or has been experimented with. Just consider an argument that has been put forward by Republican presidential candidate John McCain in the 2008 race against Barack Obama in the first Presidential Debate. McCain invoked that US business taxes should be lowered in order to remain competitive in comparison to other nations:

Now, if you're a business person, and you can locate any place in the world, then, obviously, if you go to the country where it's 11 per cent tax [Ireland] versus 35 per cent [USA], you're going to be able to create jobs, increase your business, make more investment, et cetera.

I want to cut that business tax. I want to cut it so that businesses will remain in - in the United States of America and create jobs. (New York Times, 2008)

Some scholars even go that far to argue that democratic culture itself is being undermined by deep economic integration. Nations degenerate into apolitical populations that do not care about political processes and do not understand political forces that shape the decisions that they deal with on a daily basis. “The idea of duly elected governments empowered to manage their own affairs and control their policy agenda within their territorial boundaries – a precondition of democratic governance itself – has been eroded” (Evans, McBride, and Shields, 1998, p. 6).

This concept of mass politics being constrained by globalization is aptly termed “The Golden Straitjacket” by Thomas L. Friedman (1999, p. 87):

[The] Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have put on the Golden Straitjacket. Once your country puts on the Golden Straitjacket, its political choices get reduced to Pepsi or Coke – to slight nuances of tastes, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here or there, but never any major deviation from the core golden rules.

The central claim here is that countries do have choices; however, these choices are related to less important policy areas or are vastly limited in scope. All economic regulations that might impede a country's attractiveness in the global economy are untouched by national politics. They are prescribed from above. Kai Nielsen asks pretentiously:

What kind of control do [states] have over their physical territory and their population when they cannot control health policy, taxation policy, cultural policy, investment policy, trade policy, banking policy, industrial employment policy, and the like? They can put people in jail and in some places execute them, put them in the armed forces, force them to go to school to a certain age, prohibit violence to individuals and property, require them to obey traffic regulations and the like: things that are essentially night-watchman functions [...].” (Nielsen, 2004, p. 162-3)

The watchman function of governments Nielsen alludes to amounts to governments merely making sure that their policies do not interfere with the preferences of the global economy.

To complement the discussion with one additional voice of a globalization pundit, it is worthwhile quoting Holton (2011) on this issue. He contends that, with deep economic integration, “national sovereignty remains intact in an ultimate juridical sense but is increasingly conditional upon compliance with a range of trans-national regulatory regimes” (p. 146). This is a crucial point. Keeping a nationally-distinct jurisdiction can cater to a population that does not want to concede sovereignty to any supranational level. The Golden Straitjacket



is thus a way to achieve global integration without juridically abandoning national sovereignty.

### *Global Federalism*

There is another solution to the Trilemma. Instead of trading away mass politics for deep economic integration, one could also eschew national jurisdictions and globalize democracy. That is to say, politics would not disappear or be curtailed by the constraints of globalization; it would relocate to the global level.

Archibugi (2000) calls this a “democratization of the international community, a process of joining together states with different traditions, at varying stages of development” (p. 143). In his view, this would not lead to the complete dissolution of nation-states; however, their roles would be massively changed by the fact that the idea of global federalism entails new institutional structures giving individuals a voice in global affairs which is not channeled by the state. He writes eloquently:

It is difficult today to conceive of a political decision being taken in one state without its having consequences for others. Likewise, every aspect of a state's economic, social and political life is affected by political decisions taken in others. The idea that the citizens of a given community may autonomously determine their own destiny is thus an illusory one in a world increasingly characterized by interdependence.

The two points raised above lead to the following conclusion: either we accept that democratic systems are largely incomplete due to the lack of a congenial world order or we attempt to extend democracy to international life as well. This means, on the one hand, ensuring a peaceful, non-violent international system and, on the other, developing methods of civilized coexistence to allow communities to democratically address problems that also involve others. (Archibugi, 1998, p. 205)

A relocation of politics to the global level is inextricably linked to the question whether nation-states are or can become obsolete; in terms of the Trilemma, the nation-state is abandoned in favor of deep economic integration and mass politics. An important distinction to be made here is the following. The ‘global

federalism' solution to the Trilemma does *not* refer to the fact that national policies are prescribed *from above* by the pressures arising from deeper integration in the sense that global integration leads to global competition and an erosion of institutions such as the welfare state. On the contrary, in the framework of the Trilemma, the 'global federalism' concept refers to the idea that policies are prescribed by an expanded constituency *from below*, i.e. a global polity arises along with deeper economic integration.

The idea of a global polity can be illustrated as follows. The rise of information technology and economic interconnectedness has linked the fate of nations close together which global issues such as climate change, epidemic diseases etc. testify. As a consequence of this globalization, individuals in all countries are affected by global issues. The relevant polity in which they operate is moved to a global level. A telling example of this interconnectedness is a headline in a local newspaper published in the English city of Coventry on 2 August 1990 when the first Gulf War started; it read "Iraq invades Kuwait – Bus Fares to Rise" (cited in McGrew, 1992, p. 1). This headline shows clearly how individual lives are affected by world politics to an unprecedented extent.

As a corollary to the direct link between individuals and global politics which Archibugi (2000) describes, Rosenau (1980, p. 44) discerns individual actions' implications for global issues, i.e. explaining that the *practical* link between individual level and world level is already existent:

the actions of innumerable farmers [...] are central to the problem of increased food production, just as many pollution issues depend on choices made by vast numbers of producers, energy conservation on millions of consumers, and population growth on tens of millions of parents.

This interconnectedness has created a world arena in which "governments can no longer take either domestic or international political decisions in an information void" (Holton, 2011, p. 133), instead they have to take into account an "expanded presence of global civil society" (p. 133).

Cerny describes the globalization of policy processes metaphorically as moving from "Iron Triangles to Flexible Pentangles" (2010, p. 111). The Iron

Triangles represent the “most robust concept in the traditional policy literature” (p. 114) which states that three broad categories of actors engage in the policy-making process: i) relevant elected officeholder, ii) bureaucrats in regulating agencies, and iii) non-officeholding actors (which influence the former two respectively).

The Iron Triangle has to be upgraded to current realities of “global financial markets, international financial institutions, complex multinational corporations, transnational production chains, contemporary information and communications technologies such as the Internet” (Ibid., p. 116). Two additional nodes, i.e. the transnational public sector and the transnational private sector, should complement the Iron Triangle to arrive at a Flexible Pentangle. This concept illustrates how global, i.e. transnational, dynamics influence and shape domestic policy making. National policy making is transcended by global politics or as Chayes and Chayes (1995) put it “[t]he only way most states can realize and express their sovereignty is through participation in the regimes that make up the substance of international life” (p. 27).

This brief exploration of what one might call the infancy of mass politics on a global scale showed that there are tendencies already nowadays towards a global polity – a prerequisite for ‘global federalism’. Undoubtedly, the full development of this global polity is far from completion. Nevertheless, pondering about it makes the ‘global federalism’ solution to the Trilemma and its possible ramifications more graspable.

To sum up, an economy can achieve deep economic integration in two ways: i) through global federalism, or ii) through the Golden Straitjacket. In the first scenario, it can abandon the ‘nation-state’ and embrace mass politics on a global scale in which a global polity is governed by global democracy. In the second scenario, it can abandon mass politics in which it succumbs to the rules of the international economy but maintains national sovereignty in a juridical sense. Moreover, an economy can abandon deep economic integration and embrace a nationally-distinct jurisdiction legitimized by national mass politics – which would be called the Bretton Woods compromise in the Trilemma nomenclature.

## DEEPER ECONOMIC INTEGRATION IN THE 1980S

The Bretton Woods system was spectacularly successful in re-establishing economic order and prosperity after two devastating World Wars. By promoting a market-oriented economic system, it created the “Golden Age of Capitalism” (Marglin, 1990) – which has been so popularly characterized in “Les Trente Glorieuses” (Fourastié, 1979). However, the system started to crumble by the 1970s during the ‘Crisis of the 70s’ for numerous reasons analyzing all of which would go beyond the scope of this work. The global economic regime which emanated from the ‘Crisis of the 70s’ is analyzed in this section and its implications as regards the Trilemma are described.

The Golden Age of Capitalism was not – as one might expect – superseded by a period of divergence of national economies and a rebuilding of national fences. Instead, “globalization became an imperative” (Rodrik, 2011, p. 76) and the solution to the ‘Crisis of the 70s’ was found in US President Reagan’s and UK Prime Minister Thatcher’s neo-liberalism which stressed that states have grown too large and constitute an obstacle to economic prosperity. Economic liberalization and global integration became the holy grail of world order.

The post-Bretton Woods era of the world economy can be separated into two phases: first, a Washington Consensus phase and, second, a “Washington Confusion” (Rodrik, 2006) phase. First, the Washington Consensus mantra of free market economics can be summarized in the catchphrase “Stabilize, Privatize, Liberalize” (Holton, 2011); it lasted roughly from the 1970s to the 1990s. Its demise was in essence the combination of two dynamics. First, the power of free markets was hugely overestimated and, second, the ability of governments to act in ways that would be socially desirable was hugely underestimated (Rodrik, 2011).

Second, the “Washington Confusion” phase was characterized by the recognition that the neoliberal development models of the Washington Consensus did not produce the desired results. The countries that adopted prescribed policies all faced major problems: in the post-communist states of Central and Eastern Europe output declined drastically as compared to pre-1990

levels; Latin America drowned in financial crises whose recoveries were only short-lived; African countries did not experience significant economic growth at all despite policy reforms (Rodrik, 2006). In addition, the economic success of India and China was revealingly *not* based on standard Washington Consensus prescriptions which also undermined the prevalent economic development thinking. The World Bank report 'Economic Growth in the 1990s' (Zagha & Nankani, 2005) acquiesces that i) there is no 'one-size-fits-all' solution, ii) shock therapy is misplaced, instead "[i]n most cases, countries can deal with constraints sequentially, a few at a time" (p. 16), and iii) institutional settings, especially their immanent diversity, have to be taken into account. At the same time, the IMF produced a report with completely contrary conclusions. Singh (2005) argues that the reason for the failure of the reform processes were not ill-advised policies, but rather the fact that "reforms were uneven and remained incomplete" (p. xiv) – frankly, failing countries did too little of the right thing. This divergence of views was hence rightly termed "Washington Confusion" by Rodrik (2006).

The post-Bretton Woods Washington Consensus and Confusion in spite of all the difficulties gave birth to a wave of globalization that is distinct from previous eras. The extent to which both international trade and financial liberalization have increased is striking. Rodrik (1999) reminds that "the volume of international trade increased at twice the rate of growth of world output from 1985 to 1994" which made the end of the twentieth century exhibit "the widest-ranging trade liberalization the world has ever witnessed" (Rodrik, 1999, pp. 8-9).

The mere fact that the GATT was transformed into a more fully-fledged rule-based institution with the establishment of the WTO in 1995 shows that the idea that international trade is positive and should be promoted became widely accepted. Arguably, the GATT "became a victim of its own success" (Rodrik, 2011, pp. 76-77) meaning that the postwar prosperity was attributed largely to the ascent of trade liberalization. Therefore, a direct causal link between more trade and more prosperity was established. Whereas the role of the WTO and its mission have been altered since the end of World War II while continuing to capture the spirit of the Bretton Woods system, the type of financial liberalization that the world has seen in the last decades is the exact reverse of that spirit.

Boughton (1997) reflects the agreement that was found on international capital flows:

[T]he truth is that the founding fathers were downright bullish on capital controls. [...] As drafted at Bretton Woods, Section 1(a) of Article VI [of the IMF] read: 'A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund.'  
(p. 10)

In other words, the architects of the Bretton Woods system deemed capital controls necessary and beneficial. In April 1997, some fifty years after its inception, the IMF amends its Articles unanimously reversing the previous positive perception of capital controls so that from then on they were only allowed temporarily in exceptional circumstances. In order to highlight the momentous scope of this amendment it is worthwhile quoting Wade and Veneroso (1998):

The proposed revision of Article I, which describes the *purposes* of the Fund, says that promotion of the orderly liberalization of capital is one of the Fund's main purposes. The revision to Article VIII, which describes the *jurisdictions* of the Fund – and hence the matters subject to sanctions of a legal character – says that the Fund shall have the same jurisdiction over the capital account of its members as it has over the current account. This means, in effect, that the Fund shall oversee and approve any capital account restrictions. Moreover, the language *requires* countries to commit themselves to open the capital account. (p. 34)

The reversal of the IMF policy led an increase in the growth of gross capital flows which Baker, Epstein & Pollin (1998) describe as “dramatic”; they attach importance to the “great expansion of international lending” and “explosion of secondary market trading in stock, bond, foreign exchange, and derivative markets since the demise of Bretton Woods and the emergence of deregulated domestic financial markets” (pp. 9-15). According to Went (2004), there are three interconnected dynamics that shaped the economic order after Bretton Woods.

First, the world had never before seen the combined internationalization of trade, production *and* finance – which represent the “trinity of the global market, the global workshop (or global assembly line), and the global casino” (p. 352). Second, finance superseded trade as the fuel for economic integration: “increasingly [financial] dynamics serve as the engine of the global capitalist system” (Bello et al., 2000, pp. 4-5). Third, there was a concentration and centralization of capital in the hands of a number of homogeneous multi-nationals.

A crucial implication of the liberalization of finance for the Trilemma is highlighted by Eichengreen (1996): “For several decades after World War II, limits on capital mobility substituted for limits on democracy as a source of insulation from market pressures” (p. 5). This alludes to an inherent trade-off between deep economic integration (capital mobility) and democracy. The corollary of his quote is that once an economy allows capital to flow freely it has to curtail democracy. Eichengreen basically refers to the Bretton Woods compromise-Golden Straitjacket side of the Trilemma – leaving aside the third solution of global federalism – probably because it is rightly deemed as unrealistic at this point in time.

What has been described qualitatively can also be seen quantitatively. For instance, the change is illustrated in measures of trade openness (such as depicted in Table 1 which is adopted from McKeown (1991), p. 157). If you look at these figures from 1880 to 1987, one can see that trade openness was lowest in the period following World War II with a share of 0.084 between 1948 and 1958.

<i>Era</i>	<i>Mean</i>	<i>S.D.</i>
1880-1900	0.127	0.007
1901-1913	0.134	0.008
1921-1929	0.100	0.010
1930-1938	0.078	0.008
1948-1958	0.084	0.005
1959-1972	0.088	0.008
1973-1987	0.151	0.019

**Table 1.** Mean annual ratio of import values to nominal GNP in industrial capitalist countries

During the Bretton Woods system trade openness never increased again to pre-war levels (0.088 between 1959 and 1972 as compared to 0.133 between 1901 and 1913). The highest level of trade openness, nevertheless, was achieved in the post-Bretton Woods era from 1973 to 1987 with a share of 0.151 (consider that the standard deviations for all figures is comparatively low indicating that conclusions

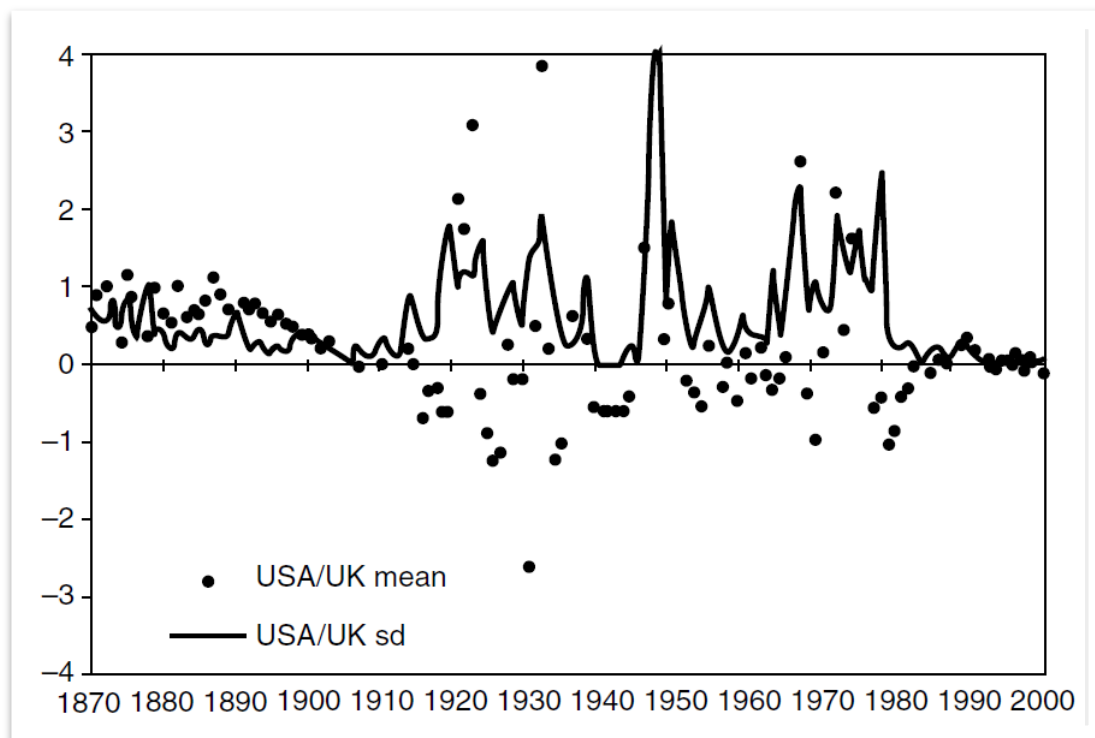
about widespread phenomena can be drawn from the data).

Apart from the impressive increase in international trade, an internationalization of financial flows can be discerned. International capital flows to industrialized countries rose from an annual average of USD 99 billion in 1975-7 to USD 463 billion in 1985-1989 – which constitutes nearly a five-fold increase (Keohane & Milner, 1996, p. 12). “Foreign exchange trading more than doubled between 1986 and 1989, when it amounted to \$650 billion daily, which was about 40 times the average daily volume of world trade” (p. 13). By the mid-1990s foreign exchange trading continued to increase and reached a level of nearly USD 1 trillion *per day* (Eichengreen, 1994).

In addition, one can have a look at interest rate differentials in order to observe an increased level of financial integration starting from the 1980s. If financial markets are perfectly integrated, there must not be any arbitrage opportunities, i.e. the differences in interest rates must be marginally close to zero. If the interest rate differential is not zero, traders could make money by merely shifting their assets between markets which would equalize interest rates automatically quickly. Graph 2 shows the nominal interest rate differentials between, exemplarily, the USA and the UK. One can observe that in times of capital controls (i.e. low financial integration) from the interwar period to the beginning of the 1980s when the Bretton Woods system dissolved interest differentials are high and vary widely. Once capital mobility rises in the 1980s interest differentials quickly converge to zero (Persson, 2010).



From the discussion so far it can be inferred that there is no doubt about the unprecedented level of economic globalization in the post-Bretton Woods era. However, this appearance is deceiving. In order to do justice to the comprehensive academic literature on globalization, the contentious controversies between *strong* and *weak globalists* will be shed light upon. Weak



**Graph 2.** Nominal interest rate differentials between the USA and the UK on similar assets, in percentage points, adopted from Obstfeld and Taylor (2004), p. 90

globalists for that matter contend the following (Nielsen, 2004, pp. 158-161). First, the global labor force is still mainly employed in non-tradable sectors such as services. Second, foreign direct investment (FDI) has increased considerably; however, it only represents a marginal share of total global investment and a large share is also inter-OECD countries. Third, while financial capital has become vastly more mobile, other forms of capital have not. In particular, labor is largely immobile. Fourth, multinational corporations, although serving as the manifestation of globalization, retain “a strong home-country attachment where the majority of assets, employees and decision-makers remain” (Betcherman, 1993, p. 5). Fifth, the last decades have seen an increase in the number and importance of international organizations such as the World Bank, WTO, etc. However, these organizations are far from representing what McNally (1990, p.

237) calls a “unified international capitalist class”. Furthermore, these international organizations, the weak globalists purport, have emerged at the mercy of powerful nation-states.

Notwithstanding, strong globalists maintain that “there is no such *a priori* refutation of strong globalization” (Nielsen, 2004, p. 161). In fact, strong globalists rightly argue that they discern a trend *towards* greater globalization which makes it impossible to de-link national policies from international policies. This development is irreversible “in a similar empirical way to that of the tractor replacing the horse in ploughing practices is irreversible once we have the tractor and stable economic and environmental conditions” (p. 161).

In any case, data that is used to compare the pre-World War I globalization with the current one misses crucial qualitative differences as the IMF (1997) reminds:

The process observed before 1914 could hardly be called ‘globalization,’ however, since large parts of the world did not participate and also because the speed of transport and communication was such that it was much less feasible than it is today to organize markets, or to operate forms, at the global level. Furthermore, international financial markets today are characterized by much larger gross flows, with a much larger variety of financial instruments being traded across borders. (p. 112)

In sum, it can be stated that the era of globalization we are witnessing currently is qualitatively and quantitatively unprecedented which accompanies crucial implications for the world economic order.

#### IMPLICATIONS OF DEEPER ECONOMIC INTEGRATION

This ever deeper economic globalization has important implications which can be illustrated with the help of the political trilemma of the world economy. In particular, the world economy has abandoned the Bretton Woods compromise while moving towards deeper economic integration; now hovering in between the three nodes of the Trilemma. It is stuck between donning the Golden Straitjacket which is “feasible, but [...] not desirable” (Rodrik, 2002, p. 18),

adopting global federalism which is “desirable, but [...] not feasible” (p. 18) and reverting to a Bretton Woods compromise-type of system.

To recall briefly, tensions that deeper economic integration bring about stem from three main categories: first, cross-border spillovers; second, diminished national autonomy; third, challenges to political sovereignty (Lawrence, 1996, pp. xx-xxiii). First, with deeper economic integration spillovers between countries become more frequent and wide-reaching. For instance the 2008 global financial crisis saw instability in the US financial sector quickly spread to all parts of the world – the simple reason thereof being the strong links between banks on an international scale.

Second, national governments find it increasingly difficult to control events within their own borders because of an uncontrolled internationalization of positive as well as negative externalities. For instance, governments are more than ever constrained in practicing their own monetary and fiscal policies to regulate inflation and unemployment by being forced to take the global landscape into account in their decisions. Speaking of national autonomy in these cases is problematic at best.

Third, political choices can no longer be taken in a vacuum. “With the profound increases in economic integration in recent decades [...] a larger number of individuals and groups – and occasionally even their national governments – have identified circumstances in which, it is claimed, some universal or international set of values should take precedence over the preferences or policies of particular nations” (p. xxii). For instance, simply speaking, the advent of human rights and their enforcement of the international community via economic sanctions effectively coerced South Africa to abandon apartheid policies.

There are a number of empirical accounts which effectively illustrate this vacuum in which the world economy is situated. This section will briefly analyze

three of them in turn: first, the European Union currently, Brazil in the early 2000s, and Argentina in the 1990s.<sup>2</sup>

First, one could depict the European Union as a large natural experiment as regards the difficult choice which the Trilemma poses. What the EU has been trying to achieve is to combine all three elements of the Trilemma at the same time, i.e. having a single market (deep economic integration), national jurisdictions, and mass politics. Admittedly, there have been major transfers of sovereignty to the supranational European level; for example in the course of building the single market (a.o. common competition policy). Despite trends towards greater supranationalism the European Union has so far not been successful in creating mass politics on a European scale as constant clamors about the democratic deficit of the EU illustrate. All in all, the amount of economic integration far exceeds the amount of political integration – a situation which is untenable in the long run. The imposed austerity measures on Greece allude to the Golden Straitjacket. These measures are not backed up by Greek mass politics. In other words, Greece traded away mass politics in favor of economic integration in the EU.

According to Rodrik (2010),

[t]he crisis has revealed how demanding globalization's political prerequisites are. It shows how much European institutions must still evolve to underpin a healthy single market. The choice that the EU faces is the same in other parts of the world: either integrate politically, or ease up on economic unification.

European government leaders such as French President François Hollande are beginning to understand the Trilemma in which the EU is caught. As a consequence, Hollande called for a “political union” with an “economic government” which would constitute a “step towards a federal state” (The Independent, 2013) within two years time. This is a manifestation of the recognition that one solution to the Trilemma is a federal system.

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<sup>2</sup> Undoubtedly, each of these examples alone would deserve to be subject of a lengthy study such as this. In the case at hand, the brief description of each suffices to illustrate how the Trilemma plays out in actual political systems.

Second, the events preceding the 2002 elections in Brazil, the sixth largest economy in the world (World Bank, 2013), show how national interests are constrained by becoming internationally integrated. The promising presidential candidate of the left-wing *Partido dos Trabalhadores* (Workers' Party) Lula da Silva stated during his campaign that he perceived social justice more important than serving foreign debt. The financial markets reacted immediately to the apparent disregard for investors' interests; the Brazilian currency *Real* lost considerably on spot and forward currency markets and risk premium on loans to Brazil soared by one fifth. These developments made repaying Brazil's debt more difficult. Therefore the IMF stepped in and of "the 30 billion dollar loan that it granted Brazil [...] [o]nly 6 billion dollars were transferred to Brazil before the presidential election, and the rest was made dependent on whether the new government maintains a budget surplus" (Went, 2004, p. 338).

The case of Brazil shows what is predicted by the Trilemma, namely that by globalizing economically one's policy scope shrinks and is prescribed by international standards. In the words of Cerny (2010),

[d]omestic political coalitions still retain a range of options for 'domesticating' globalization [...]. Nevertheless, those options are both narrower and in some issue-areas quite different from earlier periods. [...] And in the crucial area of welfare policy, for example, policy makers are increasingly challenged to find alternative to traditional options of state-led policies of redistribution and public service provision without sacrificing its traditional goals of social justice. (p. 119)

Third, the Argentinean crisis of the 1990s and early 2000s is pertinent to a discussion about the ramification of the Trilemma (Rodrik, 2011). In the early 1990s Domingo Cavallo was heading the Ministry of Economy and Public Finance under the administration of President Carlos Menem. He planned to help Argentina out of the economic struggles it had undergone in the preceding decades by integrating it closer with the global economy, i.e. by putting on the Golden Straitjacket. Cavallo implemented a series of reforms, the most important of which was the 1991 Convertibility Law. It anchored the Argentinean Peso one-to-one to the US Dollar thereby importing stable monetary policy from the US

and guaranteeing the outside world that the Argentinean government itself would not trifle with it. All in all, Cavallo's reforms were deemed a success: "[b]y the early 1990s, Argentina's record in trade liberalization, tax reform, privatization, and financial reform was second to none in Latin America." (p. 185)

In terms of the Trilemma, Argentina abandoned mass politics in favor of economic integration. Political institutions, foremost the Ministry of Economy and Public Finance, was not responsive to the Argentinean population; instead it followed the international financial market's pressures. As Argentina moved towards economic globalization, democracy was curtailed.

Cavallo's reforms did have the desired effect, at least in the short run, of eliminating hyperinflation, increasing investor confidence, capital inflows, incomes and exports. However, the short era of rising economic prosperity quickly came to an end and a series of crises in the global economic landscape saw Argentina's credit worthiness corrode. Menem's successor President Fernando de la Rúa committed to austerity policies to restore the investors' confidence in his country - but to no avail. Investor confidence had been damaged irrevocably and capital quickly flowed out of the country.

Instead social unrest continued to rise. The population became increasingly dissatisfied with the fact that it had been excluded from popular participation in economic policy-making. As the population was deprived of the democratic forms of participation, it resorted to "[p]lot banging, neighborhood assemblies, barter clubs, and graffiti protests [which] converged with picketing and multisector mobilizations, generating polarized and radial social unrest throughout Argentina." (Villalón, 2007, p. 143) As a consequence of the social unrest which at times caused as many as sixteen deaths a day (Time, 2001), President de la Rúa resigned on December 20, 2001 (New York Times, December 2001).

The Argentinean experiment with the Golden Straitjacket resulted in one of the worst economic crises the country had ever seen. The crisis and especially the public riots show the incompatibility of economic globalization and mass politics

if one sticks to national sovereignty. The Argentinean population renounced the idea that their power of economic decision-making was handed over to the 'international invisible government' and reacted with mass protests. In Rodrik's words "[w]hen push comes to shove, democracy shrugs off the Golden Straitjacket" (2011, p. 189).

The three case studies of the EU, Brazil and Argentina illustrate the implications which deeper economic integration has as regards the Trilemma. To put in in Went's (2002) words

[t]he cumulative outcome of decades of deregulation and internationalization of trade, finance and production is a global configuration in which countries, peoples, communities, movements and organizations are permanently put in competition with each other – or threatened with competition from each other – for investments, jobs, and welfare provisions – or inversely but with similar consequences, to pick up the bill for the provision of global public goods. (p. 111)

So far, one of the major transformations of the world economy that involves the move toward deeper economic integration has been deliberately excluded from the analysis. The re-emergence of China to the international stage raises question about how the political trilemma of the world economy is helpful to explain the curious case of the now second largest economy.

## PART II – CHINA ENTERS THE STAGE

For most of the twentieth century, the People’s Republic of China did not face the choices that economies such as Brazil or Argentina and economic blocs such as the EU encountered. In order to analyze how China deals with the Trilemma, some light has to be shed upon China’s economic development and its integration in the world economy.

### INTRODUCTION

China did not face the choices posed by the Trilemma until recently because – succinctly – it was detached from the global economy. Under the reign of Mao Zedong who has been Chairman of the Chinese Communist Party from 1945 to 1976, China was isolated from the rest of the world. The reason for this was partly self-imposed Party ideology and partly external isolation through the US. Mao’s communists isolated China by erecting “a system that intimately wove together political ideology, economic production, and social control” (Guthrie, 2012, p. 27) in an autarkic manner. The US isolated China by means of embargos and refusal to accept the People’s Republic of China as the *real* China in favor of Taiwan (Jacques, 2012, p. 176). Self-sufficiency was a mantra. This absolute separation from the world started to crumble in the early 1970s: when the Soviet Union joined Japan and India as threats to China’s security, Mao stated “[b]eyond Japan is the United States, didn’t our ancestors counsel negotiating with faraway countries while fighting with those that are near?” (Li, 1994, p. 514). The consequence Mao drew was that he re-established diplomatic relationships with the US in 1971 – a major breakthrough at that time. Despite the fact that this early opening was motivated by solely strategic reasons and far from constituting an economic spring, eventually it created opportunities for economic liberalization under Deng Xiaoping because China’s diplomats began travelling to the more developed regions of the US and Europe and most-humiliatingly their immediate Asian neighbors. They were shocked by the sharp contrast in



living standards and thus reached the conclusion that China, too, had to develop (Shirk, 1996, p. 192).

China's development is unique not only as regards its extraordinary speed but also because of its curious amalgam of economic policies. On the one hand, there undoubtedly was a strong influence of US-type capitalism and neo-liberalism which according to Jacques (2012) manifests itself in "the worship of wealth, the embrace of entrepreneurs, acquiescence of inequality, the retreat of the state from the provision of public goods [...], the rapid lowering of tariff barriers and the adoption of an extremely open trade regime" (p. 179). On the other hand, Chinese leaders rejected the Washington Consensus orthodoxy of free markets and instituted a strong developmental state. This ambiguity is well reflected in a statement by Deng during his 1992 Southern Tour: "The planned economy cannot be equated to socialism since capitalism also has plans; the market economy cannot be equated to capitalism since socialism also has markets; both plans and markets are economic instruments" (cited in Zheng, 2004a, p. 60).

A delicate selection of these reforms is analyzed in detail in the following. The discussion of the reforms themselves is enveloped by theoretical contemplations.

## THE REFORMS

This state of shock which Chinese diplomats experienced when they travelled to more developed countries is an unpretentious allusion towards more fundamental, external explanation for initiation of economic reforms in China. According to Frieden and Rogowski (1996), the cause of China's economic reforms lies in the evolution of the global economy at large. They purport that exogenous changes in the costs or benefits of integrating in the global economy (the *independent* variable) explains changes in policy preferences in the domestic realm (the *dependent* variable). The link that connects the independent and the dependent variable is a matrix of relative prices. Economic agents derive their decisions from the signals about economic information that prices exhibit; in other words, "[v]irtually all developments of interest to economic agents have to do with relative price changes" (p. 29). For instance, if the relative price of a

certain good rises, domestic producers will want to produce more of that good in order to increase their profits. The internationalization of trade leads to a convergence of relative prices. In an open economy, the convergence of prices, i.e. a change in relative prices, leads to changed preferences of producers – via the incentive to increase profits. All in all, the internationalization of the global economy increased the opportunity costs of autarky to those producing goods that enjoy a comparative advantage on world markets. Following these lines, by opening the Chinese economy,

reformist leaders tapped a tremendous reservoir of economic dynamism and political support. Once the wall dividing China from the world economy came down, the Frieden-Rogowski model describes very well what happened. The groups whose interests were linked with labor [i.e. China's comparative advantage] (light industry, agriculture, coastal provinces, and local officials) rushed to take advantage of foreign business opportunities. (Shirk, 1996, p. 199)

This mechanism explains that, once the access to global markets was opened, the initial reforms dynamically evolved and sparked ever deeper reforms – a mechanism which is illustrated with the uncontrollable success of the dual-track and institutionalization of SEZs.

With this theoretical backdrop, however, it is impossible to explain the point in time when the economy opened. That is to say, given the Frieden-Rogowski model, the question why China has not integrated earlier remains unanswered. Internal reasons are pertinent to resolve this puzzle. In fact, while the outside world economy changed rapidly and increased the opportunity costs of China's autarky, the groups who could potentially benefit from trading opportunities were precluded from "knowing their interests" (Evangelista, 1996). "Communist institutions [...], by freezing in power to the communist coalition and by preventing information about world markets from penetrating China, thoroughly blocked these [global economic] trends from influencing Chinese policy-making" (Shirk, 1996, p. 190). In order to launch reforms, there needs to be an internal impetus. In other words, it needed a political entrepreneur such as Deng who could embark on reforms after Mao's death in 1976. Zweig and Zhimin (2007)

similarly refer to the idea that reforms were induced from both the outside and the inside when they state that

outside forces, such as international organizations and norms, as well as global markets [*cf.* Frieden-Rogowski model], have been and will continue to deepen China's links with the world community. But these norms interact with domestic reforms and domestic political structures to influence the final form of China's global integration. (p. 15)

Indeed, Deng initiated reforms which alluding to its consequential dimensions are described in a 1987 quote from the *People's Daily* as "arduous and protracted" (cited in Gittings, 2005, p. 186). Deng proposed his plans for economic reform to the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party in December 1978. The initiation of the 'open door policy' (*kaifang zhengce*) has been characterized as "historical turning point" (Fuh-Wen, 1991); some commentators refer to them as "China's Quiet Revolution" due to their radical nature (a.o. Goodman and Hooper, 1994). Despite the fact that Deng thus initiated a period of "political relaxation" (Naughton, 2003, p. 501), economic reforms were his main focus which is reflected in what he uttered to former US President George H. W. Bush on 26 February 1989:

There are so many Chinese people, and each has his own viewpoint. If there's a demonstration by this one today, and that one tomorrow, there'd be a demonstration every day, 365 days a year. In that case, economic construction would be entirely out of the question. (Li and Wang, 1990, p. 297)

It is important to note that the post-Mao reforms entailed integrating the Chinese economy with the world economy from the outset. In fact, "[r]eform' (*gaige*) and 'opening' (*kaifang*) have been the two sides of the same coin" (Zheng, 2004a, p. 2). To be precise, Deng's agenda comprised the following: i) reforming the agricultural economy, ii) decentralizing the control over territories, iii) balancing the delicate dichotomy between keeping the structure of a planned economy while providing sufficient market incentives to local enterprises, iv) improving the burdensome social security system, and v) attracting FDI (Guthrie, 2012, p. 37). Entire volumes have been written to analyze Deng's reform

measures (*cf.* a.o. Guthrie, 2012; Naughton, 1995); therefore, this work will only focus on selected issues in the following – with an emphasis on those that highlight China’s peculiarity.

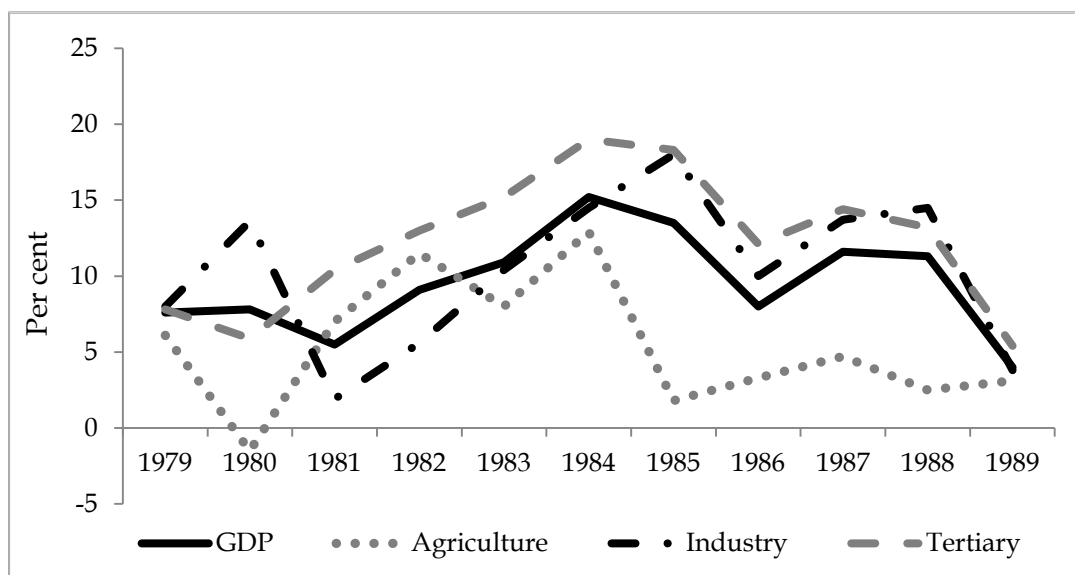
### *Agricultural reform and the success of dual-track pricing*

Agricultural reform was implemented first. In 1981 the Household Responsibility System replaced the commune system. It allowed peasants to lease land and produce agricultural goods as if they were a private business. They were still obliged to deliver a quota of grain usually to the leasing authority; however, goods which they produced in excess of the quota could be sold in rural markets. Instead of liberalizing markets immediately, China thus adopted a strategy of two-tier pricing *or* a dual-track approach. There were two distinct prices: first, one centrally-fixed priced which applied to the quota, and second, a price that was determined in a free market process for the excess grains. In other words, “prices were liberalized at the margin while inframarginal plan prices and quotas were maintained for some time before being phased out” (Yingyi, 2003, p. 307).

The dual-track approach proved to be notably successful with grain production rising from 304.8 million tons in 1978 by nearly 30 per cent to 394.1 million tons by 1988 while the state procured part thereof, i.e. grain produced under the quota constraint, only increased by roughly 5 per cent (Lau, Qian, and Roland, 2000). Despite its success, it is a fallacy to attribute China’s economic development solely to agricultural reforms. Graph 3 (adopted from Yingyi, 2003, p. 302) shows that China’s growth in the 1980s mainly stems from the industrial and tertiary sector. The early success of the agricultural dual-track approach which is reflected in the outpacing of industrial growth rates in 1981-2 has been reproduced in other sectors by pragmatically extending the dual-track reign to the industrial sector where it also produced formidable results: as an example, the planned quota production of steel increased from 13.9 million tons in 1981 to 15.6 million tons in 1990 – an increase of a mere 12 per cent. The non-quota free market production, on the other hand, increased by 93 per cent to 51.5 million tons over the same period. The share of planned production of total production decreased from 0.52 in 1981 to 0.30 in 1990 (Lau et al., 2000). The evolution of that

share hints at the fact that the economy “gradually grew out of the plan” (Guthrie, 2012, p. 41).

Apart from the dual-track’s economic consequences of improving efficiency, it also constitutes a desirable type of reform which does not create losers (Yingyi,



**Graph 3.** Growth Rates of GDP and GDP Components 1979-1989

2003). Obviously, those economic agents who participate in marginal trade gain from the dual-track. Furthermore, those economic agents who would lose from a ‘single-track’ liberalization of market prices are protected by the maintenance of the plan track because it “provides implicit transfers to compensate potential losers from the market liberalization by protecting the status quo rents” (p. 307).

These first steps of reform were not intended to create a market-based system, however. The architects of China’s economic transformation were unaware of the consequences which seemingly marginal reforms would have in the longer run. Naughton (1995) states that “the overall distinctive pattern of reform [...] emerged from the interaction between government policy and the often unforeseen consequences of economic change” (p. 7) – one of which is the success of the dual-track and its subsequent wider adoption.

### *Township and village enterprises*

The increased incentives to produce more than the quota prescribes found a receptive institutional setting when the central government initiated an ownership reform by shifting economic decision making down to local administrative levels; thereby giving up economic control to township and village enterprises (TVEs) without resorting to privatization. According to Walder (1995), this decentralization reframed the local officials' incentives such that they resembled managers of privatized firms which could avail themselves of the agricultural surpluses. Being well aware of the comparative advantages of their townships, local officials became vested with the interests of the TVEs quickly which created a healthy competitive environment in the Chinese economy. The dynamic growth in the 1980s can predominantly be attributed to the fruitful development of TVEs.

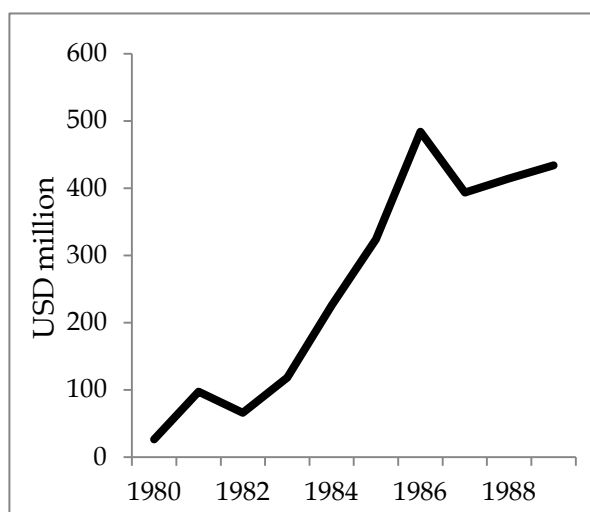
The importance of TVEs for China's growth is reflected in the fact that 42 per cent of industrial output was produced in local government firms by 1993 – up from 22 per cent in 1978 (Yingyi, 2003, p. 311). The share of private firms, however, only arrived at 15 per cent by 1993. It is instructive to compare these figures to the share of industrial output generated by central state firms which decreased by almost a half from 78 per cent in 1978 to 43 per cent in 1993. Similarly to the dual-track phenomenon, one can observe a gradual phasing out of state involvement in the private market.

The role of property rights needs to be shed light upon when analyzing ownership reform in transition economies. Typically, the lack of a rule of law to secure property rights is the fundamental obstacle to the emergence of a private economy in communist systems. Indeed, the Chinese government repeatedly seized private property such as during the 'anti-bourgeois-liberalization campaign' of 1987 (Yingyi, 2003). As a consequence of this insecurity, a private economy expectedly did not develop at first. TVEs fill this vacuum of property rights. Succinctly, as the TVEs are *government-owned* firms, their property rights are protected and that is the fundamental reasons why they developed rapidly.

### *Special Economic Zones and foreign investment*

A general characteristic of Chinese development has been the experimental nature as in the dual-track pricing system. Another manifestation of this is the concept of a Special Economic Zone (SEZ). The State Council of China conducted tests with special economic privileges already in 1979. Shortly after, four SEZs were opened in Shenzhen, Zhuhai, and Shantou of Guangdong Province and Xiamen of Fujian Province on the southern coast (Wei, 1999).

The primary objectives of the SEZs were to “experiment with the development of an outward-looking, market-oriented economic system, and to serve the country as ‘window’ [...] in these aspects” (Wei, 1999, p. 1268). The window was opened widely and foreign investment was attracted on a massive scale through incentive packages that comprised duty-free privileges, preferential treatment as regards employment and wage standards etc. For instance, a corporate income tax rate of 15 per cent was instituted which lay below levels in Hong Kong (18.5



**Graph 4.** Shenzhen SEZ: Actual utilization of foreign capital

per cent), Singapore (31 per cent), and Thailand (35 per cent) (Grub and Lin, 1991, p. 65). The SEZs were “allowed to escape almost completely from the old planning system and come close to establishing a market economy” (Shirk, 1996, p. 201). The policies delivered the desired results and

FDI soared. In the Shenzhen SEZ foreign capital increased from USD 26.6 million in 1980 to USD 434 million in 1989 – that is a hefty sixteen-fold increase (Graph 4).

The aim of attracting these levels of FDI in the SEZs is to build export-focused markets. The foreign investors saw the abundant cheap labor and a bountiful market of already close to one billion potential consumers in 1980. The thus established joint ventures exported at unprecedented rates. Chinese exports grew

at average annual rates of 16.1 per cent between 1979 and 1993 (Shirk, 1996, p. 200). Looking at Shenzhen alone the growth rate is even more staggering: exports increased by a factor of 1969 from merely USD 9.3 million in 1979 to more than USD 18 billion in 1994 which amounts to an average annual growth rate of 75 per cent (Wei, 1999, p. 1278). These figures underscore the practical manifestation of Deng's assertion that 'reform and opening are two sides of the same coin'.

The development of trade is one instance which illuminates the impact of the global economy on domestic institutions. The demands of foreign investors who were complaining about restrictively high transaction costs outpaced the speed of trade liberalization. The officials' response was a decision to "cut red tape" (Ludlow, 1982, p. 30) by instituting the streamlined Ministry of Foreign Economic Relations and Trade (*Duiwai jingji he maoyi bu*, MOFERT) in 1982. Pearson (1999) clarifies the outside-to-inside succession of events which causes to notice the relevance of the Frieden-Rogowski model:

The international regime has shaped China's institutions in several ways. To facilitate trade and investment, China's reformers restructured the institutional framework for foreign economic affairs. They did this in part by organizing the foreign trade administration under one roof during the early 1980s in order to make it more consistent with the desire to push into international markets. (p. 188)

On top of the economic rationale to establish SEZs, there is also an entangled political objective. Deng argued that establishing SEZs close to the separated zones of Hong Kong and Taiwan reassured these of future reunification (Crane, 1990, p. 37) which was successful already for the case of Hong Kong which reunified with China in 1997. Deng's reasoning in this respect is alluding to the inseparability of political and economic objectives in Chinese development.

One last point proves valuable to this analysis. Yingyi (2003) reminds that FDI and massive exports are often falsely reported to be the "driving force for China's success" (p. 299). Undoubtedly, they constitute an important – yet not the sole – building block of China's re-emergence. The SEZs' success had a more long-lasting impact than the in itself ephemeral inflow of foreign capital and outflow of exports produced by mostly foreign firms. Experiencing the economic success



of the SEZs firsthand, feelings of envy rose in other regions. These were channeled in three different ways (Shirk, 1996). First, there were attempts to discredit the SEZs as violating traditional Chinese ideology. Second, the other regions increasingly tried to benefit from the SEZs which became inner-Chinese trading hubs as a consequence. “[E]conomic ties between the SEZs and the inland areas created economic benefits for both and widened the base of political support for the open policy” (p. 202). Third, ultimately, provincial regions demanded similar privileges to the ones that brought the SEZs prosperity for themselves. Local officials in the relevant regions argue endorsed spreading the open policy throughout China. “Economic envy is a powerful motivation” (p. 203). As a consequence, similar privileges were granted to fourteen additional cities in 1984, to the Pearl River delta, the Yangtze delta and southern Fujian in 1985, and the coastal development strategy has been set up. This growth in the popularity of SEZs shows once again how external economic forces shape internal events. A slight opening of the door to the world economy induced a chain of events at which end Chinese officials demand wider opening.

#### CONCLUDING REMARKS

All of the above mentioned reform projects were part of the more broadly defined ‘open door policy’. Zhao Ziyang commented on its logic in 1981: “by linking our country with the world market, expanding foreign trade, importing advanced technology utilizing capital and entering into different forms of international economic and technological cooperation, we can enhance our capacity for self-reliant action” (Beijing Review, 1981, cited in Fuh-Wen, 1991, pp. 270-1). This analysis of Zhao is flawed in one crucial aspect – deliberately so, one might credibly argue. Zhao refers to China a being dependent only on its own powers when he refers to ‘self-reliance’. However, the country has evolved “from a policy of self-reliance and suspicion to one of openness and integration” (Economy and Oksenberg, 1999, p. v). The Frieden-Rogowski model asserts that the success of the dual-track and SEZs have been influenced decisively by the international economy. Once the reforms have led to a slight opening of the economy, more and more beneficiaries embarked on the “reform bandwagon”

(Shirk, 1996, p. 203) and moved the quiet revolution dynamically forward. Speaking of self-reliance in this context is obstinate.

To sum up, Chinese development involved the internationalization of the economy from the outset. Rodrik's Trilemma asserts that moving towards economic integration unambiguously involves making a choice as regards mass politics and nationally-distinct jurisdictions. How does this develop in China is analyzed in the following parts.

### PART III - TIANANMEN TURMOIL

The reform period initiated by Deng did not move forward smoothly without any uproar despite its economic success. This section deals with the political opening that accompanied the economic opening and the implications this had for the stability of the Chinese system.

#### POLITICAL OPENING IN THE 1980S

The decade from 1979 to 1989 was not only a period of economic opening; it was just as much a period of intellectual opening which Schwarcz (1986) referred to as “The Chinese Enlightenment”. Similarly to ideas concerning economic liberalism, Western concepts of political liberalism flowed into China. Intellectuals demanded Chinese democratization to go hand in hand with economic opening. As the ubiquitous oppression of any diverging thought of the Mao era was lifted or at least loosened in the Deng era, a lively debate “on topics such as the new authoritarianism versus democracy and Chinese culture versus Western culture” (Goldman, 1994, p. 10) ensued. Instead of clinging to Marxism-Leninism, the newly acquired freedom allowed the intellectuals to engage in “a passionate reexamination of the virtues, weaknesses, and possibilities of Chinese traditional culture” (Gu, 1999, p. 389). Their contemplations soon reached the common ground that “China should follow the Western way of democracy such as political participation from below, multiparty system and freedom of expression” (Zheng, 2004a, p. 52).

Deng’s response to the growing demand of political reform was striking. In a 1980 report he complained about the state system as being “dilatatory, inefficient, and irresponsible” because of its “bureaucracy, over-concentration of power, patriarchal methods, life tenure in leading posts and privileges of various kinds” (cited in Stavis, 1990b, p. 34). While addressing these shortcomings, it was of utmost importance though to uphold the Four Cardinal Principles which Deng defined as follows already in 1979: “1. We must keep to the socialist road. 2. We must uphold the dictatorship of the proletariat. 3. We must uphold the

leadership of the Communist Party. 4. We must uphold Marxism-Leninism and Mao Zedong Thought" (Deng, 1979). Deng "believed strongly in technocratic and economic reforms, but only within the prevailing political and ideological framework" (Goldman, 1994, p. 18).

Deng's stance was far from being universally accepted within the Party. On the contrary there were deep troughs in the opinions of the Party elite which can be traced back to the origins of the Party in the 1920s and emerged with brutal force in the Deng era (Stavis, 1990a). One group, led by Zhao Ziyang, argued for far-reaching reforms in the political system and the communist ideology which it underlies. The other group, led by Premier Li Peng, feared the destabilizing effects of wide-reaching changes and hence supported gradual adjustments under authoritarian rule. These two opposing views were reflected in a peculiar oscillation between periods of oppression of reformist thoughts (such as the earlier-mentioned campaign against the bourgeois liberalization in 1987) and periods of relative calmness on part of the conservatives. One needs to stress though that the degree of oppression in the 1980s never reached the levels of "indiscriminate terror" (Goldman, 1994, p. 18) prevalent in the Mao era and the periods of relaxation were far more pronounced. Deng managed to mediate between the two factions successfully. However, "[a]s China progressed toward the post-Deng era, it was inevitable that such [ideological fault lines] would bring about movement and release of energy" (Stavis, 1990a, p. 52).

The stalemate in political reforms due to internal Party fractures simultaneously led to an increasing disillusionment of part of the democratic proponents of which Chinese students had developed to be the avant garde. Having "[lost faith] in orthodox Marxism-Leninism, not only because of its perversion in the Cultural Revolution but also because it was losing its hold elsewhere in the Communist world" (Goldman, 1994, p. 11), they expressed their discontent in numerous spontaneous demonstrations in the late 1980s (Stavis, 1990a). Without any major improvements as regards their demands, they soon reached the conclusion that "political reform would not come from within the party without pressure from outside the party" (Goldman, 1994, p. 302).

## ESCALATION

Thus, the political situation in the end of the 1980s was far from relaxed. On 15 April 1989 the former liberally-oriented political leader Hu Yaobang deceased. The student movement took this as a cause to start yet another demonstration on Tiananmen square. The students who soon engaged in hunger strikes were joined by ordinary citizens, at some point even government officials and members of the police. Despite talks between student leaders and then Premier Li Peng, the demonstrations reached an unprecedented scale which is reflected sharply in Deng's worried words to Party President Yang Shangkun and Party General Secretary Zhao Ziyang who advocated for resuming a dialogue between the demonstrators and the Party on May 13:

Dialogue is fine, but the point is to solve the problem. We can't be led around by the nose. This movement's dragged on too long, almost a month now. The senior comrades are getting worried. ... We have to be decisive. I've said over and over that we need stability if we're going to develop. How can we progress if things are in an utter mess? (Zhang, Nathan, Link, Perry and Schell, 2002, as cited in Nathan, 2001, p. 13)

Martial law was imposed on May 20; yet it did not help to calm down the situation. The Party elite grew increasingly helpless and started to consider a violent solution. On June 2, the Party elders, among them Deng, met with the Standing Committee of the Politburo and agreed on using military force to clear Tiananmen square. Deng argued:

No one can keep China's reform and opening from going forward. Why is that? It's simple: Without reform and opening our development stops and our economy slides downhill. Living standards decline if we turn back. The momentum of reform cannot be stopped. We must insist on this point at all times. - Some people say we allow only economic reform and not political reform, but that's not true. We do allow political reform but on one condition: that the Four Basic Principles are upheld. [...] We have to insist on clearing the Square. [...] - I agree with all of you and suggest the martial law troops begin tonight to carry out the clearing plan and finish it within two days. (Zhang et al., 2002, as cited in Nathan, 2001, p. 33-34)

The demonstrations that had started peacefully thus escalated on June 4 with the martial law troops clearing the Tiananmen square. The estimates of casualties diverge widely from 7,000 (BBC) to 400-800 (Beijing hospitals) (Stavis, 1990a, p. 56). The immediate consequences for political liberalization were devastating. The crackdown took the steam of the engine for anyone proposing wide-reading political reform. "The sensitive intellectual class, and especially the young students with their exuberant idealism, entered the 1990s with nothing like the admirable social engagement they had shown in the 1980s" (Nathan, 2001, p. 48); in other words, mass politics was ruled out.

The tensions that arose from both within the Party and the demands for more democracy that culminated in the crackdown on June 4 are a result of China's economic reforms and consequent global integration. China did not have to deal with the constraints of the Trilemma before it adopted the 'opening up' strategy. However, China lost its insulation from the Trilemma once it integrated into the world economy. The concept of mass politics has not been present in Mao's China, neither did Deng set up any institutions that arguably introduced mass politics into the Chinese society. Therefore, it would be misleading to argue that, through China's integration, the economy had to choose between keeping either a nationally-distinct jurisdiction or *existing* mass politics. Nevertheless, the existing political structures came under serious threat from a *rising* mass politics movement. With the crackdown on June 4 the political elite, after all, made a clear choice against any form of mass politics. To put it in Nathan's (2001) words: "Those favoring political reform lost out and their cause has been in the deep freeze ever since" (p. 4).

It is elucidative to recall the case of Argentina in the 1990s as one can draw revealing parallels to the Chinese case. In Argentina, liberal reforms and subsequent economic integration brought up tensions with the existing democratic establishment which resulted in riots and ultimately the resignation of President de la Rúa. In China, liberal reforms and subsequent economic integration brought up tensions with a rising democratic establishment which resulted in demonstrations and ultimately the crackdown on June 4. In other words, China did not give in to the demands of the people. The crucial point here

is that both China and Argentina despite major differences in democratic history, economic development, cultural factors etc. did feel the constraints the Trilemma describes and needed to react – one way or another – to them.

## PART IV – POST-TIANANMEN DECISIONS

Through the necessity of the crackdown on June 4 China learned about the constraints which the Trilemma poses. The post-Tiananmen era is a critical period of reorientation for both the Chinese society and Party elite in which the direction for future Chinese development is laid. In other words, which choice as regards the Trilemma did China take? In this section the developments in the Party elite and intellectual circles is illuminated. They give rise to a new Chinese nationalism. In addition, a curious explanation for the feasibility of the crackdown is provided.

### PARTY ELITE

Whereas the intellectual debate about China's future course was silenced immediately after Tiananmen, the turmoil in the Party leadership was exceptional. Throughout the 1980s there had been a constant debate about whether Deng's reforms put China on the right track. Yet, as Deng enjoyed the unquestioned 'core' position in the Party, he could push his vision of reform through. Chen Yun who led the conservative faction proclaimed that the "planned economy is primary, the market economy supplementary" (Fewsmith, 2008, p. 38). The conservatives argued further that Deng's reforms would lead China away from socialism and would endanger the country's stability. Being propelled by the Tiananmen crackdown which seemingly underscored their arguments, the conservatives influenced – much to Deng's dismay – the Eighth Five Year Plan promoting as a basic principle "[t]he integration of central planning and market regulation" while stressing that "the two do not have equal status" (Fewsmith, 2008, p. 44). Deng's respect in the Party had suffered substantially through Tiananmen and he could no longer "dominate China's policy agenda" (Fewsmith, 2008, p. 36) as he was used to.

The entrenched policy debate of the Party elite is well captured by two men: Deng on the one hand and Chen on the other hand. Although the two collaborated closely to defeat the Maoists in the late 1970s, their ideological



differences erupted in the mid-1980s and found their climax in the post-Tiananmen period of political turmoil. They fundamentally disagreed in three central issues. First, Deng was deeply convinced of his reforms transforming China into a market economy and the corresponding opening of China. Chen supported a planned economy influenced by Marxist ideology. Second, Deng recognized the positive aspects of capitalism; in 1991 he declared that “[r]eform and opening up includes taking over the useful things of capitalism” (Cheng Ming, as cited in Suisheng, 1993, p. 742). Chen, to put it succinctly, despised capitalism. Third, the two men had conflicting views as regards SEZs. Chen mourned the raging corruption, while Deng praised their economic successes (Suisheng, 1993).

This ideological debate frustrated Deng (Shambaugh, 1993). He wanted to invest his energy in practical reforms which the Party bureaucracy was merely an obstacle to. He attempted to put an end to the ideological debate by directly turning to the people during his Southern Tour (*nan xun*) to a. o. Shenzhen and Zhuhai in the Pearl River Delta in the beginning of 1992 – which is described as “the most dramatic political incident to occur between the Tiananmen crackdown in June 1989 and the Fourteenth Party Congress in October 1992” by Suisheng (1993, p. 739). He argues vociferously that “refraining from arguing is one of my inventions. By refraining from arguing we can have more time for practical work. As soon as we start arguing, we will lose time and achieve nothing” (Suisheng, 1993, p. 746). By sharply attacking leftist and orthodox Marxist ideologies, he discredited the conservative faction of the Party led by Chen and managed to put his liberal economic reforms back on the agenda. Li Hao emphasized the importance of the Southern Tour in clarifying that it “no doubt put an end to the ideological dispute” (cited in Suisheng, 1993, p. 746).

Deng won the ideological battle. He could relish the fruits of his work in October 1992 “with the adoption by the Fourteenth Party Congress of the most liberal economic document in [the Party’s] history” (Fewsmith, 2008, p. 72). Deng succeeded in finally burying the debate about whether Chinese development should be *socialist* or *capitalist* in favor of the latter. The report passed by the Party Congress, in fact, affirmed that the ultimate goal of reform is a “socialist

*market* economic system” (p. 72) – the 1984 expression of a “socialist planned commodity economy” (p. 72) had vanished.

#### INTELLECTUAL DEBATE: THE RISE OF NEOCONSERVATISM

The political debate about the future course of the country was thus settled. In addition, Deng’s Southern Tour revived the intellectual debate which had been muted after Tiananmen. Deng’s political stance that “stability overrides everything” (Fewsmith, 2008, p. 37) found an intellectual counterpart in neoconservatism<sup>3</sup> which became the paramount view in the intellectual debate. Succinctly, one can summarize neoconservatism as “a body of arguments calling for political stability, central authority, tight social control, role of ideology and nationalism” (Feng, 1997, p. 593). As such, neoconservatism rejects democratic liberalization because it would endanger stability. Undoubtedly, official censorship is largely responsible for the fact that liberal democratic ideas have not reappeared after their flourishing in the 1980s. However, one has to stress that the emergence of neoconservatism was not a forced intellectual turn, but rather reflected a “collective mentality in intellectual circles towards order and stability” (Feng, 1997, p. 596).

The strong emphasis on stability and rejection of democracy which characterize neoconservative thought lend themselves to the idea that the prevalent intellectual debate overlapped with official Party ideology in the early 1990s. This perception is flawed. The most crucial difference lies in the respective treatments of democracy. Whereas the official doctrine characterizes democracy as inherently evil and hypocritical, neoconservatists reject democracy as a viable concept for China for the instability it would bring, yet the “value of democracy *per se* is never openly challenged” (Feng, 1997, p. 611). In fact, “neoconservatism implies a democratic evolution of the current polity as the ultimate outcome” (p. 611). Moreover, although both cherish stability and strong state authority,

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<sup>3</sup> One has to draw a sharp distinction between neoconservatism as understood in the US context and neoconservatism as understood in the Chinese context; the two concepts have hardly any relation.

neoconservatists perceive them to be a means to an end whereas for the official doctrine the Party's unchallenged rule is the end in itself.

Nevertheless, despite its differences from the official line, there is no denying that neoconservatism is in favor of the current regime, regarding it as the only viable and effective force able to steer China's transition. [...] [It] can be seen as a tacit consensus between the leadership and intellectual circles on how the reform should be carried out. (Feng, 1997, p. 612)

There are various both internal and external reasons for the rise of conservative intellectual thought after Tiananmen. First and foremost, the dissolution of the Soviet Union provided the Party elite with an example of the fragility of their reign would they start making political concessions to the masses. The fear that Chinese unity would not stand a democratic transition and would fall apart similarly to the Soviet Union which crumbled into its distinct republics was sufficiently high to discredit any liberal thought – not only within the Party. Internally, the rising inequality that accompanied further economic opening in the mid-1990s led to social instability in the country. The support for neoconservatism was fuelled by the argument that this instability can only be overcome by a strong authoritarian state.

The emergence of neoconservatism brought with it a relentless criticism of liberal democratic ideas. One of the leading critics, Wang Shan, asserted whenever the demand for political reform grew too large such as during the Cultural Revolution and Tiananmen, it had adverse effects for the development of China. From the fact that “national politics by mass democratic movements can only produce negative outcomes”, he concluded in 1996 that “[w]hat [Chinese] people need at this stage is to be governed; they do not have the capability to govern” (Wang Shan as cited in Feng, 1997, p. 600). Wang is one of the harshest critics of liberal democratic thought. Nevertheless, even the relatively moderate neoconservatives agree that China lacks the “historical, social and cultural contexts” (p. 601) which made liberal democracy prosper in the Western world. The common conclusion is that “China currently lacks both ‘objective’ and ‘subjective’ conditions for liberal democracy” (Chao Jinqing as

cited in Feng, 1997, p. 601). The common agreement was that institutionalizing mass politics is not a viable option.

## NEW CHINESE NATIONALISM

The phenomenon of neoconservatism can shed light on one of the Party's most pressing problems in the aftermath of Tiananmen. In the 1980s the vision of liberal democratic thinkers was to legitimize the Party rule with instituting democracy – to no avail. As Marxist ideology has also lost credibility to serve as a source of legitimacy, neoconservative thought provides an alternative source which is a revived Chinese nationalism. Christensen (1996) describes the Party's problem clearly: "Besides economic performance, the Chinese communists have little else to bolster their mandate for power than nationalism and the maintenance of national stability and integrity". Xiao Gongqing is the leading proponent of the idea to use nationalism as a legitimizing force. He argues that "nationalism must be derived from a nation's mainstream indigenous culture" (Feng, 1997, pp. 607-8) which would be Confucianism which emphasizes the importance of these same values of stability and national unity.

Chinese nationalism went through a number of stages during which it increased in strength significantly. In the Mao era, there was some sense of nationalism which was based on external imperial threats. In the 1980s, nationalism was motivated by economic development and the conviction that traditional socialism should be overcome (Fewsmith, 2008). The nationalism on which the Party built their legitimacy in the post-Tiananmen era was built on Chinese particularity and sovereignty. It conveyed the feeling that no other nation can interfere with China's internal affairs.

In order to understand this new type of nationalism, one has to keep in mind that the collective memory of humiliation by the West with the Opium Wars, colonization, and the long list of so-called 'Unequal Treaties' – which Jacques (2012) aptly calls "China's Ignominy" (p. 82) – is still prevalent in Chinese society. A particular facet of the new nationalism that is derived from this sense of humiliation is its anti-Western or anti-American quality which is further

fuelled by a 'China threat' rhetoric from the West of which one of the more current examples is Kaplan's piece 'How We Would Fight China':

The Middle East is just a blip. The American military contest with China in the Pacific will define the twenty-first century. And China will be a more formidable adversary than Russia ever was [...]: if not a big war with China, then a series of Cold War-style standoffs that stretch out over years and decades. (2005, pp. 49, 51)

Kristof explains in the New York Times (April 2001) that "where Americans see individual incidents, the Chinese see one more in a 200-year string of 'guochi' - a term familiar to all Chinese, meaning national humiliation". In other words, incidents to which Westerners do not attach major importance such as the fact that Beijing lost the 2000 Olympics to Sydney can represent "another insidious attempt by foreign powers to weaken China and hold it back" (Kristof, 2001) for Chinese. This xenophobic quality can also be discerned in a comment of Deng on June 2, 1989 on the causes of the political turmoil in which, in addition, the importance of sovereignty is addressed:

The causes of [the Tiananmen protest] have to do with the global context. The Western world, especially the United States, has thrown its entire propaganda machine into agitation work and has given a lot of encouragement and assistance to the so-called democrats or opposition in China - people who in fact are the scum of the Chinese nation. This is the root of the chaotic situation we face today. ... Some western countries use things like 'human rights,' or like saying that the socialist system is irrational or illegal, to criticize, but what they're really after is our sovereignty. (Zhang et al., 2002, as cited in Nathan, 2001, p. 32)

With its growing economic success and confidence in the global arena came also a growing sense of nationalism. To put it in Zheng's (2004a) words, "It is no exaggeration to say that a rapid development has led many people to feel proud, for the first time since the twentieth century, of being a Chinese" (p. 55).

Nationalism is far from being only a reality in the intellectual discourse. On the contrary, it is stirred up intentionally by the Party elite to re-gain political legitimacy. Wu Jiayang, former senior official, clarified: "Chinese nationalism is

something that the Communist Party started after Tiananmen. They use nationalism to replace communism. They invented it" (Wu Jiaxiang as cited in Kristof, 2001).

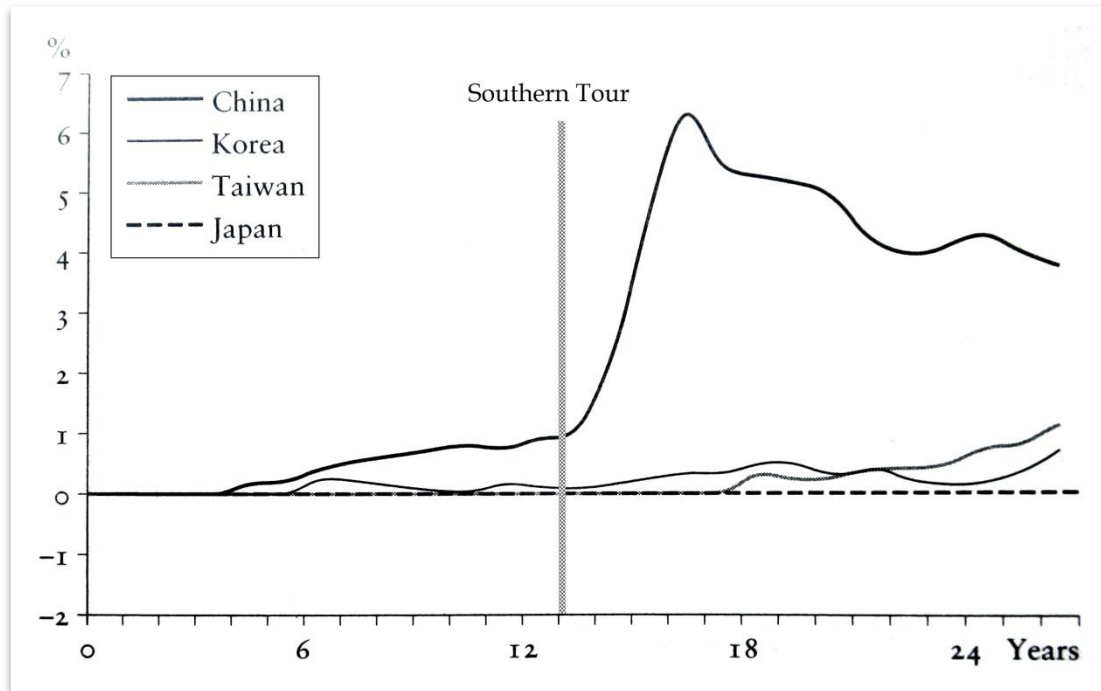
To recall the constraints of the Trilemma, an economy that integrates deeply into the world economy has to choose between either mass politics or succumbing to the rules of the international economy while retaining its sovereignty. Clearly, the Party discarded mass politics with the crackdown on June 4. With the orchestrated rise of the new nationalism, the Party did effectively not have another choice but to ostentatiously defend juridical sovereignty in the face of globalization. In the post-Tiananmen era, China chose to don the Golden Straitjacket.

#### AN ECONOMIC EXPLANATION FOR THE FEASIBILITY OF JUNE 4

The standard Western dogma predicts that political liberalization comes with economic liberalization. The Chinese example – so far – defies this idea with the crackdown on June 4 being the most violent manifestation. Indeed, economic liberalization has even strengthened authoritarian rule in China. Why is that? The rise in FDI – as an embodiment of China's opening up – can explain why China could develop without succumbing to political liberalization. It is instructive to know the reasons thereof in order to better understand the dynamics of China's Trilemma choices. This section constitutes a smooth transition from the political to the economic dimension of the Trilemma choice by merging the former with the latter and ultimately handing over to the economic climax in Part V.

For that matter, a look at FDI statistics is necessary. In order to highlight the distinct development in China as compared to its East Asian peers. Graph 4 shows FDI inflow as a percentage of GDP in China, Korea, Taiwan and Japan over their respective fastest growing period. One can observe that China has *by far* the largest FDI inflows – even before Tiananmen. After Deng's Southern Tour, i.e. fourteen years after economic reforms had been initiated, FDI skyrockets.

According to Kornai (1992), the most dramatic reform for a communist system is the move from a public ownership system to a private ownership system. There are basically three options how an economy can pursue this transformation of ownership: first, through the privatization of state-owned enterprises; second,



**Graph 5.** FDI as a percentage of GDP in selected Asian countries over their fastest growing period (China: 1978-04, Korea: 1971-97, Taiwan: 1963-89, Japan: 1955-81) adopted from Jacques, 2012, p. 181

through the development of a distinct business class; and third, through foreign investors, i.e. FDI. Gallagher (2002) argues that the latter is the route which is least politically destabilizing for a number of reasons: i) it creates a testing ground for a new economic order, ii) it enables the development of competition, and iii) it changes the nature of the economic debate.

First, FDI has created a “laboratory of capitalism” (Gallagher, 2002, p. 344). The early SEZs which attracted the first FDI flows were, at first, isolated from the rest of the country. If FDI had not brought the desired results, the Party could have just decided to abolish the plan and try something else – without inflicting any harm. The SEZs, however, turned out to be hugely successful and thus legitimized further economic reforms.

Second, it has often been argued that the decentralization of the Chinese political system was a major building block for the success of the reforms. This is

absolutely true; however, one has to stress that the decentralization only had its positive impacts because it was complemented with FDI liberalization as it was one of the local official's key authorities to compete with other regions for FDI. Creating such a competitive atmosphere proves to be valuable to instill capitalist practices in local firms. As Gallagher (2002) writes, "[e]conomic reform is pushed ahead dynamically by such competition. At the same time, resistance is reduced" (p. 357).

Third, one of the fiercest debates within the Party and between Party and society in transition economies is the one about privatization vs public ownership. The introduction of FDI has made this debate obsolete and has shifted the economic debate to a clash between domestic and foreign ownership. The Party can thus mobilize nationalist sentiments to justify a move towards capitalism. Private ownership is legitimized in order to safeguard national unity in the face of a ravaging globalization. Gallagher (2002) summarizes succinctly: "[a] nationalist perspective has replaced a socialist perspective" (p. 361).

To recap, the democratic movement leading to the Tiananmen turmoil unearthed a serious choice for the Party elite. With the crackdown on June 4 the Party clearly decided to reject any type of mass political opening. The rise of neoconservatism underscored the importance of a sense of national sovereignty in the Chinese society. That is to say, the Party elite traded away mass politics in favor of national sovereignty in order to achieve deeper economic integration. The crackdown on mass politics and the rise of a Chinese nationalism are analyzed in the current and preceding sections. The following section illustrates the extent of deeper economic integration.



## PART V – ECONOMIC IMPLICATIONS

After Deng's Southern Tour, China embarked on a journey towards ever deeper economic integration. Despite the wide-reaching reforms in the pre-Tiananmen era, one can still discern a remarkable acceleration of integration after

	1978-91	1991-96
GDP Growth (%)	9	12
Total FDI (USD bn)	23.3*	156
FDI growth (%)	28.2**	57
Total exports (USD bn)	466	669
<i>* starting year is 1979, ** starting year is 1983</i>		

Table 2. Major economic indicators in comparison

the Southern Tour. Zheng compares the period from 1978 to 1991, i.e. the pre-Southern Tour period, with the one from 1991-1996 (Table 2, adopted from

Zheng, 2004a, p. 4). All major indicators are higher in the period

after Deng's tour. For instance, the amount of total FDI is larger by a factor of more than six.

This section analyzes the accelerated integration into the global economic system. The focus lies on how international institutions shape China's integration into the world economy. Although this issue has been addressed earlier throughout the work, a re-examination is pertinent with the backdrop of vastly increased economic integration after Deng's Southern Tour and the Party's open commitment to capitalist reforms at the subsequent Party Congress. The accession to the WTO lends itself as an illustrative manifestation thereof.

### INTERNATIONALIZATION AND DOMESTIC POLITICS

The causal arrow between international institutions<sup>4</sup> and domestic politics goes from the latter to the former (often referred to as 'the second image' in International Relations literature) in a large share on the literature dealing with the link between the two. Recently, the reverse causality, i.e. how do

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<sup>4</sup> International institutions are defined by Keohane (1989, p. 3) as "persistent and connected sets of rules (formal and informal) that prescribe behavioral roles, constrain activity, and shape expectations".

international institutions shape domestic politics, has been given some attention as well. The new direction is embodied in Philip Gourevitch who wrote “The second image reversed” in 1978. This body of research has unveiled that domestic structures do have a mediating effect on the impact of international institutions; but “domestic structures are not the agents of this process” (Su, 2007, p. 67). The domestic structure is the political system in a certain country, e.g. democratic or authoritarian. Following this line of thought, the fact that China remains an authoritarian regime does not preclude the international system to have any impact. On the contrary,

in a state-dominated system with a weak domestic structure, it will be very difficult for international institutions to gain access to it, but, once they do, they can easily affect policy since the centralized authority can implement the norms from top to bottom. (Su, 2007, p. 66)

China has become a member of more and more international institutions in the past decades, more increasingly after 1989. There are several explanations for this type of opening up: first, after the crackdown on July 4, China wanted to improve its standing in the global arena. Second, China suffered from economic sanctions after Tiananmen. Chinese leaders assumed that engaging in international institutions is an effective way to avoid these type of economic losses in the future. Third, China wanted to contain the spread of the ‘China threat’ narrative (Su, 2007).

These institutions have influenced Chinese policies. As the institutional landscape is heavily biased towards the Western world because all of the important international institutions have been established in times of unquestioned Western hegemony, China necessarily takes up Western values and standards by entering these institutions. “China’s large-scale revision of domestic laws to correspond with international economic law” in the process of its WTO accession “is one prime example of this” (Su, 2007, p. 70).

## WTO ACCESSION AND ITS IMPACT ON DOMESTIC LEGISLATION

China's WTO accession on 11 December 2001 "marked the biggest extension of the world trading system since the beginning of the contemporary phase of globalization" (Jacques, 2012, p. 237). It constitutes an apt case study to analyze both the impact of international institutions and the deepening of economic integration because the WTO explicitly alters the regulatory regimes in candidate countries in order for them to be eligible for accession (Pearson, 2007). One can discern a relatively direct impact of the international community on China's policies. In other words, one can observe constraints which donning the Golden Straitjacket imposes on an economy.

China's 15-year negotiation process can be divided into three phases, according to Fan (2007): i) a period of indecisiveness from July 1986 to October 1992 transformed into ii) a period of commitment from November 1992 to November 1999 and the process ended with iii) a period of mostly bureaucratic adjustment from November 1999 to November 2001 which is of limited importance for the purpose of this work and is therefore disregarded. First, in the period before the Fourteenth Party Congress in October 1992 none of the negotiators knew whether China will move towards a Western-style market economy. The incompletely-understood ambition to reform since 1978 added to the confusion on part of especially the Western negotiators. Tiananmen froze the negotiations entirely for three years. Second, after the Fourteenth Party Congress in October 1992 in which the Party elite vindicated capitalism as a means to achieve economic prosperity, there was a clear commitment to a market economy which soothed all negotiators. It was in this phase that the actual "direction, speed, scope and essential terms for China to open its markets" (Fan, 2007, p. 99) were negotiated.

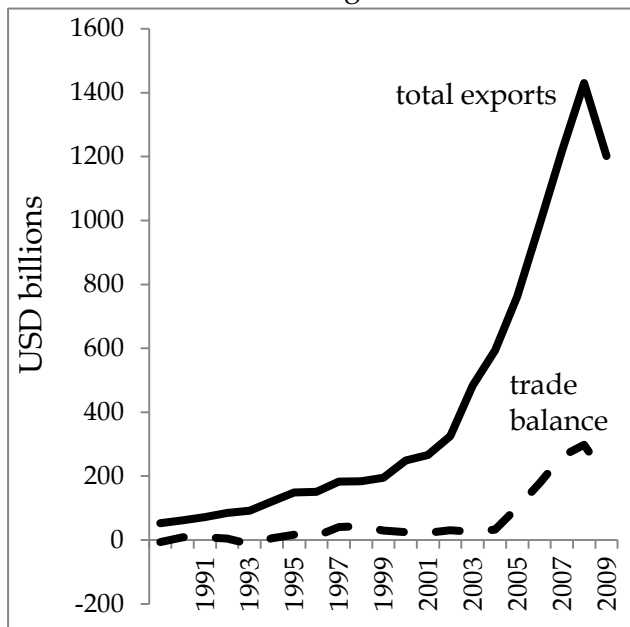
The scope of China's WTO accession is, indeed, remarkable. China, still being a developing country, for example agreed to set "all tariffs at low statutory rates" (Ya Qin, 2007, p. 722) - which is a commitment few countries have shown before. More specifically, China has agreed to obligations which lie outside the regular scope of the WTO: the 'WTO-plus' (more regulations than usual) and 'WTO-minus' (less rights than usual) provisions. 'WTO-plus' refers mainly to market

economy and foreign investment regulations. Under ‘WTO-minus’ China allows trading partners to apply trade-distorting antidumping and safeguard measures to its imports. The wide-ranging nature of Chinese accession is illustrated by Ya Qin’s (2007) argument that “[i]t was the WTO commitment that has finally rid China of this legacy of a centrally-planned economy” (p. 725) – an objective that had been formalized in the Party Congress in October 1992.

This drastic adoption of regulations is in line with Su’s (2007) argument that once international institutions have accessed an authoritarian state it becomes relatively easy to affect policies. It has been shown several times in this work that once China ‘opened the door’ only slightly, it was pushed open far more fervently by either the Party itself or other forces than had been expected before – China’s WTO accession is another manifestation of this.

The impact of the WTO on China’s domestic legislation can be subdivided into three parts: i) the impact on foreign trade law, ii) the impact on foreign investment law, and iii) transparency provisions (Ya Qin, 2007).

First, one of the most important achievements in the foreign trade law regime is China’s concession of the right to import and export for each foreign and domestic firm. A mere registration at the Ministry of Commerce suffices to attain



**Graph 6.** Chinese total exports and trade balance (adopted from Guthrie, 2012, p. 100)

this right. This development is a “primary example that the government has shifted its role from direct control over foreign trade operations to functioning as a regulator in the marketplace” (Ya Qin, 2007, p. 726). In addition, tariffs and quotas have been drastically decreased: the average tariff rate decreased from 39.5 per cent in 1994 (already after the Southern Tour-commitment to

capitalism) to 9.7 per cent, roughly one fourth of that value, eleven years later (p. 726).

The most visible impact of the WTO accession is the stark increase in trade. Graph 6 shows the evolution of total exports and the trade balance from 1989 to 2009. Over that twenty year period, exports have increased by a factor of nearly 23 exhibiting a compound annual growth rate of 16.9 per cent. This is in itself impressive. In order to disentangle the WTO effect, the compound annual growth rate between 1989 and 2000, i.e. pre-WTO accession, is 15.2 per cent whereas the post-WTO compound annual growth rate is 20.7 per cent. This shows the liberalizing effect on trade of the WTO.

Second, China's WTO accession provided an impetus for foreign investment. It was common practice to attract FDI at enormous levels already in the 1980s, the increase in the level of FDI that flowed into China after its WTO accession even surpassed the surge after Deng's Southern Tour. Lardy (1995) lists a number of reasons for this drastic increase in FDI of which the most important ones are the following. First, the political and economic environment had become more stable after the turmoil surrounding Tiananmen. This convinced many that it would be safe again to invest in China. In particular, the advantages that investors could only enjoy in the SEZs earlier were widely enlarged to other regions. Second, Chinese firms have been guilty of moving capital out of the country only to declare it as FDI and enjoy the favorable investments conditions when they moved it back in. According to Harrold and Lall of the World Bank (1993, p. 24), these artificial flows amounted to 25 per cent in the early 1990s. This is a substantial amount; given the massive increases in FDI, however, it can still be considered marginal. Third, the regulatory regime that curtailed FDI in the 1980s has been liberalized substantially with the accession negotiations to the WTO.

In particular, the WTO prescribes that performance requirements attached to investment activities such as regulations that demand some form of local content in the investments or that the investment complies with foreign exchange balancing are unlawful. China abolished not only all performance requirements prohibited by the WTO under the Agreement on Trade-Related Investment

Measures (TRIMs). In fact, China committed itself to abolishing *all* performance requirements which constitutes an example of the 'WTO-plus' provisions China voluntarily subscribed to. Another manifestation of the 'WTO-plus' is the fact that China guarantees national treatment to foreign investors. That is to say that foreign investors are treated equally as domestic firms with respect to e.g. the right to engage in trade and provision of factors of production.

Despite these improvements, the Chinese National Development and Reform Commission has indicated that it wants to shift from focusing on quantity to quality of FDI which alludes to a re-introduction of performance-based criteria. WTO commitment would provide an obstacle to that type of interfering with market forces.

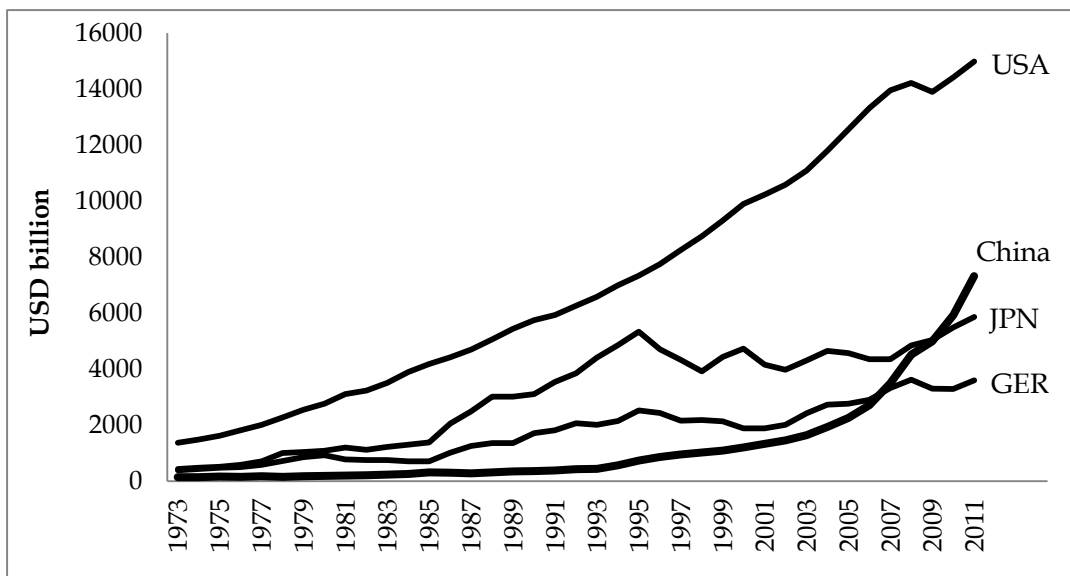
Third, regulatory transparency is one of the fundamentals on which free markets are built. With the accession to the WTO, China has been forced to change its chronically opaque legislative system and open it to external scrutiny. All trade-related legislation has to be published in an official journal and translated into one of the WTO working languages. Before the implementation of a law China has to concede a considerable amount of time (more than other WTO member states) for debate. Despite the fact that reform in this era is markedly problematic because of the judicial entanglements with "historical and cultural traditions" (Ostry, 2002, p. 131) China's legislative transparency has increased markedly throughout the accession process - a fact which also has domestic benefits as local investors' access to the existing rules and regulations has improved as well.

All in all, one can conclude that China has substantially pushed its integration into the world economy forward with the accession to the WTO. Accession naturally involves taking over the regulations the WTO protects and also the values it promotes. These are mostly prescribed by the requirements of the global economy or still reflect Western hegemony in the post-World War II era. In the course of the accession negotiations China thus donned the Golden Straitjacket ever closer. Thereby it also strengthened its choice of juridical sovereignty to the detriment of mass politics.

## CHINA IN THE GLOBAL ECONOMY

Despite all progress towards economic prosperity, China remains a developing country. Nevertheless, its impact on the global economy is profound. The astounding growth rates have increased its economic weight substantially, though each citizens still only has an income of roughly 17 per cent of the US (GDP per capita, PPP, in current international USD: World Bank, 2013). A look at the evolution of GDP in Graph 7 shows China's dramatic ascent to the world economic stage. Although it was still lagging behind the major industrial nations in 2001, it is now the second largest economy worldwide.

The global economy has become increasingly accustomed to a growing China. Between 2002 and 2005, China contributed one third to the growth in real output. China's economic engine has been one of the major factors why the Financial



**Graph 7.** Gross Domestic Product (current USD) (World Bank, 2013)

Crisis did not hit Western economies even harder (Jacques, 2012). In fact, it is only through the help of China that the US can sustain its deficit spending through which it amassed foreign currency reserves worth more than USD 3,200 billion – an amount which has already been center of attention of the EU when it asked for Chinese financial assistance to solve the Eurocrisis in October 2011.

The economic growth that China exhibited in the past 35 years is stunning. At the same time, it created a burden for Chinese further development. A high

growth rate turned into an imperative for China as it represents a major source of legitimacy for the Party. Shirk (1996) clarifies: “Economic success translates into political support for reforms by generating resources to reduce the costs of transition and by vindicating the policy choices of reformist leaders” (p. 201).

There are a number of longer term issues that China has to address in the longer term future if economic growth is to be sustained. These are “currency policy, the efficiency of investment, consumption, welfare and growing inequality, and the environment” (Jacques, 2012, p. 192). As a brief outlook and a conclusion to this section, China’s currency policy, environmental pressures and the growing inequality will be addressed quickly.

First, China has benefited enormously from a ‘competitively’ valued Renminbi (RMB). It was a major building block of China’s export-led growth strategy and provided incentives to invest Chinese massive savings at home rather than exporting it to other countries. The times of a fixed currency regime are approaching its end though. The Renminbi is already appreciating slowly and will continue doing so in the future. This may be partly due to external (especially US) pressure; however, it also serves domestic interests. In particular, a slowly appreciating Renminbi helps to shift from export- to consumption-based growth – which also one of the issues China must tackle.

Second, China has developed largely ignoring any environmental concerns of industrialization while being scarcely endowed with natural resources. This course – if maintained – can turn out to be disastrous. The hope would be that China as it grows richer will start to value environmental protection more (the superior good-argument). Most likely, however, China cannot wait until it reaches a per capita income level of that of the US before it starts addressing its environmental problems. One of the possible solutions would be a shift towards more resource-efficient technologies. In fact, China has committed itself to becoming a world leader in renewable energy technology. The worldwide export of Chinese-origin photovoltaic technology testifies to Chinese determination.

Third, China’s economic rise has brought a surge in inequality which can slowly undermine the broad support of the reform unless it is approached



vehemently. The Gini coefficient<sup>5</sup> has risen from 0.29 in 1981 to 0.42 in 2005. Chinese economist Yu Yongding comment on the seriousness of the issue in December 2010: “With the contrast between the opulent lifestyles of the rich and the slow improvement of basic living conditions for the poor fomenting social tension, a serious backlash is brewing” (China Daily, 2010). The problem of inequality is worsened by the fact that social security is no longer provided by state-owned enterprises for ever more Chinese workers. Paradoxically, the insecurity a lot of Chinese face as a consequence has incentivized higher private savings rates which are ultimately beneficial for China’s growth. In any case, easing growing inequality must be high on the agenda for the Party if it wants to sustain its power.

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<sup>5</sup> The Gini coefficient is a measure of inequality ranging from 0 (most equal) to 1 (most unequal). For comparison, Sweden, one of the most equal countries worldwide, has a Gini coefficient of 0.23 (2005).

## CONCLUSIONS

The case of China's economic development is revealing in numerous aspects. Never before has the world seen an economy of more than one billion people grow at an average rate of roughly ten per cent for a sustained period of more than three decades. If Western pundits were honest, none of them would have believed that this extent of economic prosperity could go along *without* Party power collapsing. China proves the existence of a different, non-Western path.

## SYNOPSIS

In this study, China's solution to the political trilemma of the world economy has been illuminated. China has initiated its 'open door policy' under Deng Xiaoping in 1978. The following long decade brought unforeseen economic growth to China which thus overcame the atrocious Cultural Revolution – the cruel culmination of Mao's ruining reign. While the economy gathered momentum, Chinese political leaders steered it into the middle of the Trilemma. The economic opening in the 1980s brought with it also a political relaxation and growing demands for democracy. Political reforms were implemented but their limited scope gave rise to maturing disillusionment. Over time, the tensions between democratic uprising, deeper integration into the world economy and the need to guarantee national sovereignty grew untenable and discharged in the tragedy of Tiananmen.

The importance of economic progress was a paramount value Deng always pushed forward. For him, economic integration was a prerequisite to make China a great nation again after long centuries of Western humiliation. After Tiananmen, he argued that China "certainly must not stop eating for fear of choking" (Fewsmith, 2008, p. 37). It was obvious that economic integration cannot be curtailed. Leading China towards modernity, Deng knew – whether aware of the constraints globalization poses or not – that China's "modernization needs two prerequisites. One is international peace, and the other is domestic political stability" (Deng as cited in Zheng, 2004b, p. 33). The Party elite

guaranteed domestic stability by harshly suppressing the democratic movement which culminated in the crackdown on the Tiananmen protestors on June 4, 1989. After Tiananmen, the political liberalization movement was silenced. The ensuing intellectual debate discarded the idea of democracy and stressed national unity, stability and the inviolability of Chinese sovereignty as central desiderata. This strand of thought is called neoconservatism. It resulted in the rise of a peculiar type of new Chinese nationalism characterized by anti-Western attitudes and the recognition that China will not allow any breach to its sovereignty.

The Trilemma asserts that an economy can only have two out of three. Either it does not participate in deep economic globalization and settles with a Bretton Woods compromise in which national distinctions are backed by popular support or it integrates economically which leads to two additional options. First, an economy can abandon its national sovereignty so that its jurisdiction merges into a global polity supported by mass politics on a global level – the global federalism solution. Second, abandoning mass politics in favor of maintaining juridical sovereignty leads to the economy donning the Golden Straitjacket.

The pendulum which is attached to economic globalization thus swings between mass politics and juridical national sovereignty. It has, however, only limited energy and at some point a nation has to decide between the two options. The Tiananmen turmoil was the time when the pendulum movement came to an end coercing China to make a choice. Deng's focus on political stability complemented with a neoconservative longing for a strong state pushed China away from mass politics and towards the juridical national sovereignty node of the Trilemma where an emerging new Chinese nationalism was emitting a magnetic force attracting China ever closer to the Golden Straitjacket.

A period of deepening economic integration ensued which strengthened China's choice. China became increasingly locked in and globalization showed its transformative dynamics which are difficult to escape. A marginal opening to the world economy often led to a process which was uncontrollable for the Party elite and during which local officials vociferously demanded ever wider opening.

The transient climax of this development has been reached with China's accession to the WTO in 2001.

The accession to the WTO illustrates how China has been shaped by Western rules and values in its move towards integration. The WTO, after all, is an institution which is heavily influenced by the post-World War II world powers, most crucially the US and the UK. The impact on China's trade and investment law regimes was massive; uncountable laws have been amended or straightforwardly taken over from the WTO. More generally, the way China relates with the outside world has become more transparent.

Succinctly, the nascent democratic aspirations remain suffocated below the thick fabric of the Golden Straitjacket. At the same time, China takes advantage of being ever more deeply integrated with the world economy. One should not forget, however, that the situation is inherently dynamic. The emergence of a Chinese democracy might radically change the equation of the Trilemma – debating to what extent belongs to the realm of speculation.

## PROSPECTS

China has thus taken a decision. The Western world, on the contrary, did not; it is lingering somewhere in between the nodes of deep economic integration, national sovereignty and mass politics lacking a clear vision which path to take. It has been easier for China to choose because it is not curbed by a 'democratic straitjacket'. The West, for that matter, finds itself in an intricate situation.

In this section, the way China challenges the supremacy of Western modernity is addressed in combination with a brief assessment of the democratic prospects in China. Furthermore, the distinctiveness of China's modernity might lead to irritation in the construction of a new global governance order.

### *China's distinct modernity and prospects for democracy*

The nineteenth and twentieth century were dominated by the West. This period has been characterized by a pervasive "Western hubris" (Jacques, 2012, p. 167): everything that originated from the West was perceived as being of

exceptionally high quality or of a considerably prestigious character. This included everything ranging from culture, clothes, and skin color to political and economic ideas. The belief in the superiority of the Western approach culminated in the economic ideology of the Washington Consensus. More generally, it is also reflected in a deeply-rooted conviction that the Western societal model with liberal democracy underpinning a healthy market economy is to be pursued as the Holy Grail.

China, however, did it without the Washington Consensus. China did it even without liberal democracy. This period of unquestioned supremacy of Western modernity is coming to an end. As “ideas such as ‘advanced’, ‘developed’ and ‘civilized’ will no longer be synonymous with the West”, increasingly, China will be seen as a blueprint for states to manage their own path towards economic prosperity – a development that can be witnessed already in sub-Saharan Africa.

The idea that China’s authoritarian regime will ultimately succumb to democratic pressures is worth illuminating because it could be interpreted as a late comeback of Western modernity’s superiority.<sup>6</sup> There are scholars that argue that democratization in China is inevitable and argue that China will be classified as ‘free’ by 2025 (Rowen, 2007). Others argue that Chinese culture is incompatible with democracy and quote Duke University’s Tianjian Shi who contends that “92 per cent of Chinese trust the national government” (Yu, 2012, p. 47) or state that more than 60 per cent of Chinese think their country is already ‘very democratic’ or ‘somewhat democratic’ (Tianjian, 2008, p. 219) which makes liberal prospects appear forlorn. Despite these doubts, it is unlikely that China can resist existing democratic pressures in the long run.

The crucial point, however, is that a Chinese democracy will be far from similar to the liberal democratic model which the West hails. Traditional political values are starkly different in China and the West: where Western politics rests on “accountability, representation, and participation”, Chinese politics is governed by “sincerity, loyalty, reliability and steadfastness” (Jacques, 2012, p.

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<sup>6</sup> It is practically impossible to do justice to the broad literature on the relation between China and democracy in the context of this work. Work on the topic includes but is not limited to Zheng (2004a) and Goldman (1994).

270). A possible future Chinese democracy will have heavy imprints of Confucian traditional legacy such as a strong role of the state and the family, centrality of value and morality, and a predilection to solve conflicts through mediation rather than litigation. In sum, even though there might be a democratic China in the long run, its democracy will be sharply distinct from what lies in Western imagination – similar to the singularity of China’s economic system.

### *Prospects for global governance*

To shift the discussion on a broader level, this section will briefly address the challenges to global governance and China’s involvement. Bremmer and Roubini argue that we are living in a “G-Zero world” in which “no single country or bloc of countries has the political and economic leverage – or the will – to drive a truly international agenda” (2011) – which is, to say the least, problematic considering the pressing challenges that lie ahead. Mahbubani explains the state of global affairs vividly:

In the past, when the billions of citizens of planet earth lived in separated countries, it was like having an ocean of separate boats. Hence, the postwar order created rules to ensure that the boats did not collide; it created rules for cooperation.

Up until now, this arrangement has worked well. World War III did not follow World Wars I and II. But today the world’s seven billion citizens no longer live in separate boats. They live in more than 190 cabins on the same boat. Each cabin has a government to manage its affairs. And the boat as a whole moves along without a captain or a crew. (New York Times, 2011)

The world has to re-invent global governance. This involves re-assessing the implications of globalization. It involves moving from an understanding of sovereignty as “sovereignty from’ external coercion by foreign powers to embodying it as ‘sovereignty to’ the interests of one’s citizens” (Goldin, 2013, p. 112). Crucially, it also involves overcoming the psychologically entrenched sense of Western hegemony.

The rise of China and how it behaves in the international arena is a decisive factor in shaping future global governance. Recognizing and understanding distinct versions of modernity such as the Chinese one is a crucial prerequisite for fruitful global collaboration. The possibility of creating a future which is worth living in lies in moving beyond self-centredness.

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