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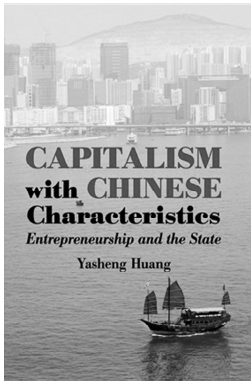
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Huang, Ya-sheng

Capitalism with Chinese Characteristics: Entrepreneurship and the State

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Reconceptualizing the Chinese Economic Miracle

June Park

At a time of China's remarkable economic growth, a thorough explanation of how the miracle came about in a communist regime such as China was in need of explanation in order to provide implications of the new model of economic development. Around the world, foreign governments, international institutions, academia, and the business world alike were in awe at the extent of China's propelled growth. While academics in the West have mainly examined China's accelerated economic development since the 1990s, Huang Ya-sheng's book centers on the very fundamental roots of economic development and capitalism since Deng Xiao-ping's proclamation of economic reform in China in 1978. Despite the potential controversies that may arise from the core arguments of the book, Huang's book gives us another perspective on how China's economic growth evolved, by his series of comparative analyses of rural entrepreneurship in the 1980s and urban development in the 1990s in China.

In the brief but detailed synopsis of the book that has laid out the main arguments in the main chapters, Huang labels China's capitalism as "Capitalism with Chinese Characteristics," which he defines as "A function of a political balance between two Chinas — the entrepreneurial, market-driven rural China vis-à-vis the state-led urban China" (xvi). The first chapter "Just How Capitalist is China?" poses a very rudimentary question as to whether China's economic miracle

derived from a privatization-driven model or not. The author sees that in explaining the mechanisms that drove the Chinese economic miracle, there is still more room for debate.

He elucidates the real China economic growth model and rectifies the mainstream view that Chinese capitalism is not comprised of Chinese companies regarded as “state owned enterprises (SOEs)” ; instead, he unravels the roots of their foundations (such as in the case of the computer manufacturing company Lenovo) and finds that the Chinese corporate success is a combination of Chinese management and foreign legal status, sought overseas in places like Hong Kong. He explains that this combination setup was an inevitable condition, as at the time of setup in the 1980s, China lacked the legal vehicle and institutions to have these companies legally registered for operation in China.

This is a ground-breaking finding for many who have only believed that China had created a unique, country-specific formula for cautious deregulation with state ownership and selective government intervention. Truth be told, the Chinese corporate success story in the 1980s was not necessarily based on the rule of law and market-based finance, but rather on formidable Chinese innovations that have sought access to efficient legal and financial institutions abroad. Control rights and ownership of firms also matter. Huang categorizes these Chinese companies as foreign-invested enterprises (FIEs), and clearly states that they are also wholly owned by a legal foreign entity, and also states that the vast majority of the SOEs are technically classified as non-state firms but are still tightly controlled by the state. The first chapter explicitly states that private sector development in the rural areas was rigorous and broad-based in the 1980s but languished in the 1990s (24). He elaborates that foreign direct investment (FDI) and SOE reforms are fundamentally urban and to the extent that entrepreneurial capitalism is rural in origin, rural policies matter more for China’s economic transition. The question unanswered here is what triggered FDI liberalization and the SOE restructuring in the 1990s, which could be regarded as policy reversals from rural-based entrepreneurship that were at the center of Chinese economic development in the 1980s (40). Huang continues to dwell on the question in subsequent chapters.

In the second chapter, “The Entrepreneurial Decade,” he finds the roots and origins of Chinese economic development in the rural

countryside of the 1980s rather than resorting to the urban driven development in the 1990s. He sees that 1) the component of education in the rural sectors in which Maoist leadership heavily invested in and 2) political factors such as the Cultural Revolution which stunted urban development in the planned economy, are two key factors which gave relative momentum to rural development in the 1980s(60-61). He sees that rural entrepreneurship is not necessarily agricultural, and sheds light upon the overlooked impact of public ownership of township and village enterprises(TVE). As a counter argument to the findings of Joseph E. Stiglitz and other Western academics, he argues that Stiglitz had only seen the virtues of local government ownership in a transitional context, but in actuality TVEs had derived from innovative ideas of rural entrepreneurs and not township governments (68-69). He finds defining TVEs as “public owned” questionable and even incorrect, because TVEs are only local by location and not ownership — on the surface they may appear to be public-owned but in truth they are rural private-sector businesses.

In the third chapter, “A Great Reversal,” Huang examines how the shift from the 1980s to the 1990s came about in China’s entrepreneurship. The 1989 Tian’anmen crackdown served as a critical turning point for the new economic and political era into the 1990s, with much more government control and regulation on the private sector compared to the 1980s. In response to the government’s policy reversal, rural entrepreneurs became laborers in larger firms in turn to obtain revenues(118). Huang focuses on the local governments in the poor regions pouring financial and other resources into the collective sector rather than facilitating a natural and organic process of private-sector development(136). In terms of transitional financial liberalization from the 1980s to the 1990s, Huang states that China reversed many of the productive and innovative financial practices it had adopted in the 1980s(140). Focusing on ascertaining the directions of institutional or policy change, he calls the trends of financial liberalization in China *directional liberalism*, and points out that rural financial practices were trending in a liberal direction in the 1980s and in an illiberal direction in the 1990s(145). The political context in which policy reversals in financial reforms and the operation of TVEs occurred can be attributed to the policy agenda in the 1990s constructed by Jiang Ze-min and Zhu

Rong-ji, who held their previous important posts in Shanghai. This represents a huge contrast with the 1980s top leaders Zhao Zi-yang, Wan Li, and Tian Ji-yun, who came from agricultural and rural provinces. In the 1990s, the push for FDI, technology, massive infrastructural development, and urban renewal topped the Chinese national economic agenda(159-60).

The critical viewpoints in the third chapter leads to the fourth chapter, “What is Wrong with Shanghai?” in which Huang seeks to address the pitfalls of the symbol of Chinese economic development. The main arguments of this chapter is in that while Shanghai dominated much of the Chinese economic development in the 1990s in accordance with the Chinese government and leadership’s policy reversals, there are drawbacks unknown to outsiders. Huang describes the little known facts about Shanghai that may dismantle the Shanghai miracle story. Regrettably, the interventionist model of Shanghai is not as compelling as the entrepreneurial Zhejiang or Guangdong model(p. 185). Huang’s findings reveal that although Shanghai has performed well, it (1) retains the burdens of staggering growth in GDP per capita figures for the larger population, (2) has inevitably paid into the development with heavy taxation, (3) considerably lacks innovations in technological improvement, and, above all, (4) was a precursor to China’s anti-rural bias and repression of small-scale and labor-intensive entrepreneurship in the 1990s(227). His bold emphasis that the Shanghai model is not antithetical to capitalism *per se* but instead antithetical to the virtuous kind of capitalism(228) may well be understood in the context that the central government’s preference for Shanghai has deprived other regions of FDI opportunities(232), and this is the book’s biggest wake-up call.

The final fifth chapter, “Capitalism with Chinese Characteristics,” leads to the denouement with Huang’s projections of the future of the Chinese economy and the government. Huang saw that that the policies of the 1990s that have distracted China from its growth trajectory may not be corrected, though this may all change with the leadership of Hu Jin-tao and Wen Jia-bao. Nevertheless, we may need to look further into this future trajectory with the new leadership of Xi Jin-ping, the presumptive heir to current General Secretary and President Hu Jin-tao and the emerging leader of the Communist Party of China’s fifth generation of leadership in the coming years.

Huang's book contributes to the study of Chinese political economy by an in-depth approach via extensive quantitative research of government data and bank documents, and also by a good qualitative research with results that may have been unfathomed, or not even attempted by Western academics. He differentiates himself by the methodology of his choice and the explanatory power that he derives from his analysis of data. This is also owing to his firm and solid background and understanding of the Chinese economy in micro and macro perspectives, the Chinese business world and the economic policies and legislation conducted and enacted by the Chinese government. However, there are also fallbacks — although he is in denial of the fact that his argument is not in ignorance of the developments that occurred in the 1990s, he misses out on the virtuous parts of Chinese capitalism and development in the 1990s, which also has made much of what China is today. China in the present day would be almost unthinkable without the developments and opportunities that it had in the 1990s. It is also untrue that Western academics have not at all sought to look into the rural development of China as a platform for future growth in China — this is unveiled in Huang's frequent reference to the previous works of Barry Naughton and Nicholas Lardy for supporting arguments.

Overall, contrary to the main beliefs and myths about China's growth, this book seeks to provide another dimension of the Chinese economic miracle that was not as much in the spotlight in the Western academia. Without doubt, his depiction of "Capitalism with Chinese Characteristics" identifies the stumbling blocks of the policies of China's economic development. Scholars who retain different recollections of China's economic development may oppose or reject his arguments, but Huang's work deserves to be thoroughly read because it carries the added value of research that Chinese leaders might choose to reflect upon as they form the policies for further development that is sustainable.