5. The political economy causes of China's economic success

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China's economic growth since 1978 has been nothing short of a miracle, lifting most people out of poverty and the country to the rank of higher-middle income. Its citizens have witnessed a quantum leap in their standard of living, and the nation's wealth now rivals the greatest countries in the world. It is no exaggeration to say that China's rapid economic take-off has been *the* most significant economic event in the world in the past four decades. For economists, studying China's economic success is exciting. However, most studies to date have focused on its 'technical' aspects—that is, pointing out what China has done right in terms of economic policy and institutional reform—rather than on the 'principle' aspects, investigating the fundamental causes of China adopting good economic policies and implementing institutional reforms. The quest for these causes is a major new undertaking in political economy analysis. This chapter aims to contribute to this endeavour by offering three political economy explanations for China's economic success. First, an autonomous government—one that neither represents a specific social class nor is captured by a specific social group—enables the central government to adopt highly inclusive economic policies that favour long-term economic growth of the whole society. Second, economic decentralisation gives local governments strong fiscal motivation to develop the local economy. And third, a meritocratic promotion system gives local officials strong positive incentives and counters the negative consequences of decentralisation. This chapter analyses the inadequacies of previous studies, and then discusses these three causes.

Inadequacies in existing explanations

Comparing the growth of China over the past four decades with that of East Asia's successful economies shows that China shares common elements of their success, such as high rates of savings and investment, deep industrialisation, exports driven primarily by manufacturing products and an emphasis on education. Thus, from a purely economic perspective, China's galloping economy is nothing special, and has not exceeded the expectations of neoclassical economics. This does not mean that market forces alone drove China's success without any input from the government. On the contrary, the government has played a crucial role in the

nation's economic success. While most scholars agree that government action has been important, academic opinion is divided over the exact role the government has played. A number of theories have been popular over the past few decades.

The institutional view

The reform launched in 1978 was the key that unlocked China's high rates of economic growth, and institutional reform was at its core. Price reform, state-owned enterprise (SOE) reform, granting market access to the private sector and opening up to the world were the most significant elements. Price reform was indispensable as the nation made the transition from a planned to a market economy. China adopted a gradual approach and completed its price reform over a 10-year period, between 1984 and 1994. SOE reform came next; this proved much harder than price reform because it triggered massive unemployment of millions of workers. China took 10 years to complete the transformation of 80 per cent of its SOEs from government-owned entities to market players. The private sector emerged during this time and became an economic pillar of significance equal to the SOEs, greatly enhancing China's economic vitality. The 1990s saw China's economic reform advancing at its fastest pace, creating a firm foundation for the exponential growth in the decade after China's 2001 accession to the World Trade Organization (WTO). Opening to the international economy, which began in 1980 with the establishment of four special economic zones (SEZs), also helped spur rapid growth after the WTO accession. If pre-WTO opening was concerned primarily with bringing in foreign investment, post-WTO opening was driven by the concept of 'going abroad'. From 2001 to 2008, China's export growth averaged 29 per cent per annum—more than quadrupling its total amount over the seven-year period.

A longitudinal comparison shows that economic reform was undoubtedly the engine driving China's rapid economic growth over the past four decades. This proposition, however, faces two challenges. First, what was the role of the industrial, technological and social development in the 30 years prior to China's reform? Although many mistakes were made in that period, its achievements cannot be disputed. As of 1978, a comparison of developing countries that were on a par with China in their stage of development and income levels (such as India) would reveal that China had a higher degree of industrialisation, a more comprehensive industrial system, stronger technological strength, greater coverage of basic education and longer life expectancy (Yao 2014). These achievements helped create a firm foundation for economic dynamism after the reform. Second, is the institutional thesis still valid when one compares China with other developing countries? Among the more than 140 developing countries (regions) in the world, most have adopted a market economy and are open to foreign investment, but only a handful has succeeded in substantially raising their income. If 45 per cent of US per capita income is adopted as the threshold for a high-income nation, only 11 countries (regions)

have moved from the rank of middle-income nation to high-income nation since 1960. Therefore, establishing a market economy and opening to the world, while prerequisites, are not sufficient conditions for economic growth.

The development strategy view

Lin et al. (1996) proposed that the change in development strategy was the key to China's different economic performance in the pre-reform and post-reform periods. They distinguished between two types of development strategy—namely, catching-up and comparative advantage. The former refers to the government's approach to developing industries that defy the comparative advantages of the nation, while the latter refers to the government's approach to developing industries that conform to the nation's comparative advantages. Lin et al. (1996) believed that the planned economy failed because China initially adopted the catch-up strategy, and it has succeeded since economic reform because it has abandoned the catch-up strategy and adopted the comparative advantage strategy. As China's labour force was long the source of its comparative advantage, the comparative advantage strategy required development of labour-intensive industries. In subsequent works, Lin (2014) further emphasised the importance of upgrading the industrial structure when a nation's capital-labour endowment structure is upgraded. He believed this was in line with dynamic comparative advantage. At the same time, he also highlighted the crucial role the government can play in selecting which industries to support. The 'new structural economics' Lin has advocated has generally been considered representative of the 'facilitating state' theory.

Based on the history of China's industrial upgrading, the conclusions drawn by Lin and his co-authors about the role of comparative advantage are undoubtedly correct. The question is how can we explain the mechanism behind this relationship? According to the theory of new structural economics, this is the outcome of a deliberate choice by the government. However, this theory fails to explain why the market is unable to automatically select the industries that fit with a country's comparative advantage. Under the assumption of a complete market, we would never arrive at a conclusion in which the enterprises in that market would not select an industry with comparative advantage. Lin (2014) emphasised that the market is incomplete. However, this significantly weakens his theory because its crux is no longer comparative advantage (because comparative advantage would lead to spontaneous selection by enterprises in a complete market), but whether the government is necessary. This has been the subject of much discussion and study since the socialist debate between Oskar Lange and the Austrian School (notably Hayek) in the 1930s.

Meanwhile, the comparative advantage theory also needs to address the three decades preceding China's reform. All backward countries are trying to catch up with developed countries; they are aiming to attain the latter's standard of living within a relatively short period—much shorter than that taken by developed countries. Catching up comes in myriad forms and follows many paths. The path China has taken is to build a relatively comprehensive industrial base and accumulate robust technological strength at the expense of a generation, and then join international economic exchange to release its potential. This may not have been the optimal path. On the other hand, it may have been a productive path: developing heavy industry might have been the best choice at the time,¹ and, indeed, much was achieved by that strategy. It is contrary to say the least to deny there were any benefits from a development strategy based on heavy industry.²

The China model view

The 'China model' is often known as the 'Beijing consensus'. For the purposes of this chapter, the Beijing consensus refers to a new economic model that stands in contrast to the 'Washington consensus', which initially was a set of structural adjustment policies responding to the Latin American sovereign debt crisis in the 1980s (Williamson 2004), but which has since become synonymous with neoliberal economic doctrines. As such, the Beijing consensus has emerged as the antithesis of neoliberalism, although the specifics are a matter of debate. One view equates the Beijing consensus with socialism with Chinese characteristics, and places specific emphasis on the role played by state-owned economic components. For instance, the state-owned land system has meant that local governments can rapidly improve a city's infrastructure by way of land finance and SOEs can carry out national strategic goals. These assertions are credible to a certain extent, but do not necessarily go far enough to capture the key impetus of China's rapid economic growth. Clearly, if the state-owned components are that important, why did the country underperform during the central planning era when compared with the post-reform era? 'State capitalism' may be an answer to this question and may serve to generalise the Beijing consensus. State capitalism negates both economic planning and laissez-faire capitalism, and instead advocates a kind of socialism marked by strong government intervention, which, to a certain extent, accurately describes China's reality. The question is: does

1 Implementation of the import substitution strategy and the development of domestic heavy industries were the major policy recommendations of the World Bank, as well as the consensus of most Chinese academics at the time. A 1948 survey of Chinese students studying in the United States revealed that 51.5 per cent of the respondents believed the development of China's heavy industry should be advanced by way of nationalisation (Pepper 2017: 79).

2 Yao and Zheng (2008) constructed a dynamic general equilibrium model to comprehensively evaluate the heavy industry development strategy during the era of the planned economy. Their simulation found that by producing positive externalities, the strategy facilitated China's economic growth. However, the duration of this strategy was too long (the optimal duration is 12 years) and the subsidies received by heavy industry were too high.

it really capture the essence of China's economic success? In the past 20 years, the private sector has been the key driver of economic growth. Using state capitalism to generalise the Beijing consensus lends support to the views that discredit China's growth as being 'anti-people'. A consequence of state capitalism is the suppression of the welfare of ordinary people, which is contrary to the aim of economic growth, and precisely what has been used by some international observers to attack China's development path. Attributing China's success to state capitalism defeats one's own attempt to distil any merits from China's growth experience.

Another view is that the Beijing consensus is more flexible than state capitalism. This view holds that the most significant characteristic of the Beijing consensus is the flexible application of the prescriptions of neoclassical economics. As previously mentioned, from a purely economic perspective, China's economic success has not exceeded the expectations of neoclassical economics. However, China's government has conscientiously screened these prescriptions and their process of implementation has been gradual. A typical example is exchange rate management. In the planning era, the renminbi was grossly overvalued and became the key reason for China's hunger for foreign exchange. After the reform, the government became aware of this problem and began to adopt a dual-track exchange rate system. The official exchange rate was still overvalued and was used primarily to control imports. The market exchange rate was generally market driven and was used to encourage exports. This was a classic case of mercantilism; it was a flexible application of neoclassical economic theory. The two exchange rates were unified in 1994, and the currency was pegged at RMB8.25 to US\$1 until 2005. Subsequently, the renminbi entered a managed floating regime, but exchange rate stability remained the fundamental goal. Fixed exchange rates helped drive China's exports significantly, accelerating industrialisation, but holding back workers' wages (Mao et al. 2017). Other examples include the dual-track price system, SOE reform and industrial policies. However, selectively applying the neoclassical economic prescription is not unique to China, but is a common feature among East Asian economies. Thus, using it to define the Beijing consensus is inappropriate. In reality, the task of scholars is not to find the unique characteristic(s) of a nation, but to discover the universal attributes of many nations. It is poor analysis to use the Beijing consensus to explain China's success.

The cultural view

To explain a country's success, culture is one factor that comes easily to mind. For instance, Weber's *The Protestant Ethics and the Spirit of Capitalism* explained the success of capitalism from the perspective of Protestant culture. In East Asia, neo-Confucians have attempted to use Confucian culture to explain East Asia's economic success, but serious economic analyses are rare. Zhu (2016) is an exception. After rejecting other explanations, Zhu pointed out that the culture of savings and education was a crucial factor in China's economic success. A high saving rate and

a relatively high level of education are the key drivers of China's rapid economic growth, and Chinese culture contains elements that value both. One also has reason to believe these cultural factors have a positive effect to raise saving rates and levels of education. However, from an academic perspective, China has provided only one sample point; deriving a conclusion from this may not have universal significance. In fact, the biggest problem with using culture to explain economic success is that when researchers argue that a particular culture spurs economic growth, they are unable to exclude the possibility that other cultures can also promote economic growth. For instance, Weber placed the Protestant culture on a very high pedestal. As far as Protestantism is concerned, his arguments would have been just fine—Protestantism did encourage discipline, frugality and hard work—but they could not explain why the economy of Prussia, which was predominantly Protestant, took off later than that of France, which was predominantly Catholic. Certainly, he would not have been able to predict that Confucian culture would have an effect similar to Protestantism in the later part of the twentieth century. One of the challenges of the cultural explanation for the post-reform economic miracle is that Chinese culture has existed since ancient times. Why did it only begin to spur economic growth after the reform? Culture is a slow (long-term) variable, while post-reform economic growth has been a rapid (short-term) variable. We know that a slow variable cannot explain a fast variable. Culture may be important, but it needs another 'trigger variable' to become effective.

To summarise, the four popular views have all touched some truths of China's miraculous growth, but they are incomplete. In particular, they have focused on the 'technical' aspects of China's growth, exploring what China has done right in terms of economic policy and institutional reform, rather than on the 'principles'—the 'why' and 'how' China has done right. Organisations and individuals formulate policies and institutions. In the case of China, this is the government and its officials. The issue of 'principle' would then become: what factors have made the Chinese Government adopt policies and institutions that favour economic growth? What factors would incentivise officials to implement these government policies and adopt the right institutions? This chapter's answer to the first question is that the Chinese Government is an autonomous government. The answer to the second is that promotion is the strongest incentive, and economic decentralisation provides the platform for merit-based promotion.

The autonomous government

An autonomous government contrasts with a biased government (Yao 2009). A biased government is one that represents the interests of a minority in society. In most cases, it is a product of patron–client politics. The patrons are powerful characters who monopolise political and economic resources and hand them to their

clients in exchange for political support and material benefits. Politics thus becomes a transaction between individuals, rather than political competition for the purpose of a common goal. In a country dominated by patron–client politics, the status of the ruler depends on the depth of his or her personal political networks as well as the amount of political and economic benefits he or she can offer to the clients in the networks. In this case, he or she must therefore succumb to the interests and welfare of this minority, thus ignoring the rest of society. Fukuyama (2014) has thus viewed patron–client politics as the greatest threat to liberal democracy.³ In this context, the autonomous government becomes all the more meaningful. An autonomous government is one that does not form an alliance with, and is not captured by, any interest group in society. It is impartial towards different segments of society, but may have its own interests and agendas. Because it is unfettered by the claims of any interest group, an autonomous government has advantages over biased governments in terms of economic growth. Its economic policies are more inclusive and misallocation of resources is less common. Hence, it can advance economic growth better than a biased government (Yao 2009).

Whether a society can produce an autonomous government depends on that society's political structure and the political power (or state capacity) possessed by the government. A politically more equal society can produce an autonomous government more easily because the ruler does not have to worry about any group or an alliance of groups overthrowing his or her rule. Should a rebellion occur, he or she would be able to form an alliance with groups of equal strength to defeat the rebels. The higher the political power of the government itself, the less it should be concerned with rebellions by social groups. Thus, even if the political structure is less equal, the government is able to remain autonomous. Figure 5.1 illustrates this with an example of two social groups.

Figure 5.1 assumes there are two groups in society. Each has a certain amount of political power (the ability to mobilise or organise to defeat other groups), denoted by v_i , $i = 1, 2$. The government also has a certain amount of political power (mobilisation, suppression and other such abilities), denoted by v . Under what circumstances would an autonomous government emerge? If one of the two groups has stronger political power than the government, this group is able to replace the government. At this time, only if the government and the second group form an alliance, and the political power of this alliance is equal to or greater than that of the first group, can the government be protected from being replaced. This would require Equation 5.1.

3 The Philippines is a classic case of client politics. See Yao (2018: Ch. 15).

Figure 5.1 Political structure and the autonomous government

Source: Yao (2018).

Equation 5.1

$$v \geq |v_1 - v_2|$$

However, the government cannot be so powerful that an alliance between the two groups is unable to check it. Thus, we also require Equation 5.2.

Equation 5.2

$$v \leq v_1 + v_2$$

Only when both conditions are met would the government choose to be autonomous. In Figure 5.1, the lightly shadowed area is where the autonomous government exists. The heavily shadowed area fulfils the condition in Equation 5.1, but not in Equation 5.2; here, the government can do as it pleases. The area in which the autonomous government exists is a tube along the 45° line in which the gap between v_1 and v_2 is modest—that is, society features a certain degree of equality in political power. Meanwhile, the width of the tube depends on the strength of the government's political power. A government with greater power can accommodate a more unequal political structure. These conclusions are also valid when more than two groups exist (see Yao 2018).

If we apply the above analysis to China, we see that, in the first two decades of its reform, China's relatively egalitarian social structure and the encompassing nature of the Communist Party of China (CPC) helped produce an autonomous government. In the early years of the People's Republic of China (PRC), the socialist revolution shattered the old social class structure and forged a new society that was almost completely egalitarian; and, in the next three decades, this social structure continued to be more equal than it would otherwise have been. Although this process

was accompanied by pain and failures (particularly during the Cultural Revolution), a solid social foundation had been laid for economic reform. The CPC itself underwent enormous changes during the reform process. Starting with the 'truth debate' in 1978 and ending with the 'three representations' at the sixteenth CPC congress in 2002, the Communist Party completed its transition from a revolutionary party with an emphasis on class struggle to a ruling party representing the interests of the country. To use Olson's (1982) thesis, the CPC became an encompassing organisation—that is, its own interests significantly overlapped with the interests of society. With this transformation, the CPC brought capable people into the party, turning societal conflicts into internal party discussions. It formulated the party's fundamental policies through democratic centralism. In this process, the ruling status of the party was also enhanced. Thus, although Chinese society began to polarise dramatically in the 1990s, the CPC was able to remain autonomous.

As it remained relatively impartial towards different sections of society, the party-led government was able to adopt economic policies that benefited the entire society without restraint. In the early stages, reforms (such as rural reform) often resulted in Pareto improvement. Very quickly, however, most reforms and economic policies would fail to generate explicit Pareto improvement; only potential Pareto improvement could be achieved. Hence, locally and over the short term, the pro-growth policies that an autonomous government adopts may well be partial. The most well-known example of this is the SEZ. Clearly, over the short term, SEZs benefited only a minority, but over the longer term, SEZs have played an irreplaceable part in China's opening up to foreign investment. SOE reform and accession to the WTO are similar examples. A recent example would be the stimulus plans adopted after the Global Financial Crisis. When the crisis struck, expanding domestic consumption was the correct measure. What other countries did was disburse cash directly to encourage consumption. In China, all levels of government started a new investment boom and expanded production capacity. The reason China's government was able to do this was that its policy is not dictated by public sentiment, so it can be guided by a longer-term vision.

Nonetheless, along with the rapid accumulation of wealth and dramatic social polarisation, business interest groups have also sprung up quietly, and began to corrupt senior party and government cadres to form political–business alliances. After the eighteenth CPC congress, General Party Secretary Xi Jinping led a high-profile anticorruption campaign, not merely to root out the cancer of corruption and to purify the party, but also to eradicate these political–business alliances and to build a new relationship between the government and the business community. Over the longer term, the anticorruption campaign was an indispensable means of allowing the party and the government to return to their core roles, and to continue to remain relatively impartial towards different sections of society, thus consolidating the ruling status of the party. It also offered political assurance to the nation about maintaining a relatively high rate of economic growth over the longer term.

Economic decentralisation

An autonomous government can explain why the central government is willing to adopt pro-growth economic policies over the longer term, but does not adequately explain how these policies are thoroughly implemented in a country with a vast territory such as China. Economic decentralisation and a meritocratic promotion system for government officials are strong supplementary elements in the Chinese system. Decentralisation motivates local governments and officials to take the initiative to develop the local economy, while a meritocratic promotion system overcomes the negative effects of decentralisation, such as regionalism and corruption. This section discusses decentralisation, and the next the meritocratic promotion system.

China has been a unitary state since ancient times. After the Qing dynasty was overthrown, the Republic of China and then the People's Republic of China inherited this system. In a unitary state, how to balance local initiatives and national unification has always been a core issue of concern for the central government. Since Qin Shi Huang, the first emperor of unified China, established provinces and counties, China has created a rigorous bureaucracy and has governed its vast territory via a competent bureaucracy rather than a feudal system. From the perspective of preserving national unity and advancing the will of the state, this system has been, without a doubt, very successful, and was commended by Fukuyama (2014). However, this system suppressed local initiatives and hindered social and economic improvement.⁴ After the founding of the PRC, the central government also had to face the issue of balancing central planning and local initiatives. During the first five-year plan period, the fiscal system was highly centralised. While the accelerated development of a number of heavy industrial projects was a positive result, it suppressed local initiatives. Mao Zedong was aware of this problem and specifically discussed the issue of incentivising both central and local authorities in his famous speech 'On the Ten Major Relationships'. However, decentralisation during the 'Great Leap Forward' in 1958 led to economic chaos. Subsequently, the fiscal relationship between central and local authorities wavered between decentralisation and centralisation until 1977, when a pilot system of local fiscal contracting was launched, and 1980, when the fiscal contracting system was officially established. In the next 14 years, the central government entered into different contracting agreements with the provinces, the content of which was adjusted according to prevailing circumstances, resulting in economic decentralisation.

4 For instance, the overly centralised tax system in the Song dynasty curbed the initiative of local officials to protect the local economy (Li 1999). As such, the seeds of capitalism in the Southern Song did not bloom into a capitalist economy.

Fiscal decentralisation was carried out hand-in-hand with China's overall economic decentralisation. In the 1980s, township and village enterprises (TVEs) emerged and prospered, becoming engines of China's industrial growth. Local governments played a crucial role in advancing the development of TVEs. At the time, private enterprises were not officially recognised. Entrepreneurs who wanted to start enterprises had to tie up with the local government, resulting in the emergence of a large number of so-called red-cap enterprises. The local government provided a political umbrella for these enterprises, helping them find production materials and sales channels. Hence, the local government erected a protective firewall between the central government and enterprises and played a positive part in market development and reform. Qian and Weingast (2011) believe that, in this regard, fiscal decentralisation is a type of fiscal federalism that protects the market. Fiscal decentralisation significantly motivated local governments to take the initiative to develop the local economy, which became an important force in propelling China's economic growth in the 1980s and 1990s.

The fiscal contracting system created many problems, one of which was the decline in the central government's share of the national budget. By the early 1990s, budgetary revenue figures alone showed that the central government's share of total government revenue had fallen to less than 20 per cent (Wang and Hu 1993). Local governments also had large amounts of extra-budget revenue. The central government's fiscal capacity fell significantly while local governments' influence was significantly enhanced. The implementation of the tax-sharing system in 1994 was intended to resolve this problem. This reform borrowed elements of the federal system such as that in the United States. It classified taxes into central, local and shared taxes, and established the value-added tax (VAT) at a uniform rate of 17 per cent, of which the central government took 75 per cent while local governments took 25 per cent. As the VAT was the largest tax after the tax-sharing reform, the share of the central government's budgetary revenue rose significantly, to more than 50 per cent. As such, this reform institutionalised fiscal decentralisation and strengthened the central government's revenue capacity. With this capacity, the central government was able to use fiscal tools to regulate and control local governments, the primary means of which were fiscal transfers back to the provinces. In the 1990s, fiscal transfers were based primarily on tax rebates and projects, which attended to the interests of developed provinces, but had no fiscal equalisation effect on a nationwide basis. In the new millennium, particularly after 2006, general transfers intensified and interprovincial fiscal gaps began to narrow. To date, transfer payments from the central government to the provinces are equivalent to 80 per cent of central fiscal revenue, achieving fiscal equalisation, on the one hand, and bolstering the central government's authority over local governments, on the other.

An international comparison would reveal that not all countries that implement fiscal decentralisation have been successful. In countries such as Russia and Indonesia, decentralisation actually increased opportunities for corruption among local officials (Blanchard and Shleifer 2001). Undeniably, this is also present in China. In addition, decentralisation has led to local protectionism, excessive competition and myopic behaviour among officials. Why, then, has China's economic performance been better than that of other countries? In recent years, some foreign observers believed that corruption among officials could well be the key to explaining China's economic success. The deceleration of China's economic growth in 2012–15 coincided with its anticorruption campaign, and has been used as proof for this assertion. The existing literature has put forward two theories supporting the idea that corruption promotes economic growth. The first is the 'greasing the wheels' theory, which holds that many government regulations in developing countries hinder economic growth. Thus, bribing officials helps to 'grease the wheels' for enterprises to circumvent unreasonable rules and regulations. The second is the rent-creation theory, which holds that to achieve economic growth, superiors deliberately retain some rents for subordinates in exchange for their efforts. Both these theories, however, fail the test of empirical evidence. In regards to the first, if the 'greased' official did not offer equal services to all players in the market, corruption would distort resource allocation and lower economic efficiency. Based on the anticorruption experience over the past few years, the 'large tigers' who have been arrested have generally exchanged interests with very few businesspeople. The additional services they offered were not universal. For instance, former railways minister Liu Zhijun took bribes from only one businesswoman, who gained enormous illegal profits by monopolising freight transport. There are even more problems with regards to the rent-creation theory—for instance, it is unable to explain why superiors have to resort to corruption rather than other means to motivate their subordinates. Nor can it explain why superior–subordinate exchanges occur in the first place. Most importantly, it has misinterpreted the operation of the CPC and failed to understand the effect of loyalty, discipline and institutions therein. The CPC is a highly institutionalised political party. The actions of an individual are subject to party discipline and the laws of the country. The party has a rectification mechanism and remains on high alert for misconduct. Although misconduct and corruption will emerge in the short term, in the long term, the rectification mechanism will play its role. The current round of anticorruption measures is a case in point.

Blanchard and Shleifer (2001) have long held that decentralisation has played a positive role in China because the country has a strong central government, which curbs the negative consequences of decentralisation. The central government has, on the one hand, guided and regulated local investment and other behaviour through various directives and transfer payment measures, and, on the other, has controlled local officials via its power to appoint and dismiss those officials. This has unified the goals of local government with those of the central government. The central

government's power to appoint and dismiss local officials is a characteristic of a unitary state, and China has had significant historical experience creating an effective meritocratic promotion system for government officials. This is the topic of the next section.

A merit-based promotion system

China's system for selection and promotion of government officials can be traced back to the recommendation system (*jian-ju-zhi*) of the Western Han dynasty. Local officials were responsible for recommending young people to join the administrative system and for supplying talent to the state. At the same time, the imperial court implemented the appraisal system (*kao-ke-zhi*). Specially appointed officials were dispatched around the country to appraise the performance of local officials. Those who received good performance appraisals were promoted and those who performed poorly were punished (Deng 1987). However, cronyism and nepotism could easily pervade the recommendation system. Indeed, by the time of the Eastern Han dynasty, this had become a system of hereditary aristocracy. By the time of the Sui dynasty, China had developed *ke-ju*, or the imperial examination system, and selected talent based on exam results. This was more objective than the recommendation system and was less easily manipulated by individuals. Thus, China was the first country to invent the civil service system, and created a national governance structure in the modern sense based on this system (Fukuyama 2011). China's contemporary selection and promotion system for government officials has promoted the positive parts of the imperial examination system, and abandoned the unreasonable parts. On the one hand, young people can enter the administrative system by taking the civil service exam; on the other, the promotion of officials depends on their ability and performance. The Communist Party began to establish a selection and promotion system for leading party and government cadres in the 1980s, and introduced the 'Rules for the Appointment of Cadres' in 2002. These were revised in January 2014 and renamed the 'Rules for the Selection and Appointment of Leading Party and Government Cadres' (hereinafter, the rules),⁵ which provided guidance on the appraisal as well as selection and promotion procedures for leading party and government cadres at every level of government.

The rules establish the 'principle of the party's authority of managing the cadre system'. To guide the selection and promotion process, the rules list a series of principles to be applied, including seeking talent from a large pool of candidates; valuing virtue and talent, but virtue first; publicly acknowledging performance; a democratic, open and competitive selection process; democratic centralism; and acting according to the law. The party committee at each level is responsible for

5 For the full text, see Xinhua News Agency (2014).

the selection and promotion procedures, with detailed guidelines provided by the rules. The rules also allow young officials to become ‘reserve’ officials for higher-level positions, and describe the appraisal procedures in detail. Reserve officials are normally arranged to rotate through different posts at the same administrative level. In addition to the conventional selection and promotion system, public selection is also used for selecting leading cadres, providing a channel for people working in non-government sectors to enter the civil service sector.

There is debate about the role that meritocratic promotion plays in the process of selecting officials. Some studies have found that officials who perform better during their term of office are promoted more easily (Li and Zhou 2005; Yao and Zhang 2015), but others have found that officials’ personal connections with their superiors also have an impact (Shih et al. 2012; Jia et al. 2015). Unlike research that studied officials at only one level, Landry et al. (forthcoming) studied officials at the county, municipal and provincial levels, and found that economic performance had a larger impact on promotion among lower-level officials. Just as in a large firm, in government, ability and quality are highly valued when officials are first recruited. The higher the post, the less ability is taken into consideration, while other factors, including personal ties, become more valuable. Landry et al.’s study is able to unify the research conclusions relevant to economic performance and personal ties.

Current research, however, is focused on economic performance. Few are concerned with officials’ abilities in other areas, although, in practice, the party’s organisational department conducts appraisals on an integrated and comprehensive basis. Rather than focusing solely on their ability to develop the economy, the department also looks at officials’ performance in advancing people’s livelihoods, environmental protection and implementing central government policies. Wang and Liu’s (2018) research is an exception. They studied the impact of establishing healthy cities on the promotion of officials and found that officials who have successfully established healthy cities have more opportunities for promotion.

On the whole, China’s selection and promotion system possesses the attributes of openness, competitiveness and meritocracy. It is open to all who aspire to become administrative talent for the state; however, it does not offer shortcuts like those in democracies, but instead requires that a person enter the system when he or she is young and be prepared to be trained and improved within the system. It is competitive because the number of positions available is always smaller than the number of candidates. If one aspires to be promoted, he or she must compete with others. Last but not the least, empirical evidence shows that officials’ ability plays a crucial role in their promotion—hence, the selection and promotion system reflects the value of meritocracy. Promotion is an important goal to which an official aspires. Driven by merit-based promotion, officials are motivated to work hard and to turn in an excellent report card. This, to a very large extent, curbs the negative consequences brought about by decentralisation, including corruption. Based on

information revealed by the anticorruption campaign over the past few years, many of the 'large tigers' caught up in corruption had at the same time also been working diligently for local economic and social development; their incentive, to a very large extent, was the prospect of promotion. China's unique selection and promotion system explains why economic decentralisation has been so successful there.

Conclusion

This chapter has offered a political economy explanation for China's economic success. The rationale behind this explanation is that an autonomous government can adopt long-term pro-growth institutions and policies to benefit the economy; economic decentralisation strongly motivates local officials to take the initiative and a meritocratic promotion system guides these initiatives towards the development of the entire nation. China's experience offers useful lessons for other developing countries in at least the following three areas.

First, curbing patron–client politics so the government has sufficient room to pursue the interests of the entire society is the top priority of political transformation in developing countries. Most developing countries adopted electoral politics without a social revolution, so the existing unequal social and political structures survive and often lead to patron–client politics. The fundamental means of rooting out patron–client politics is to revamp these existing structures. However, this process will take a long time under the electoral politics system. What China has done offers useful lessons for the political transformation of other developing countries, but each will have to explore the specific means by which the transformation will take place.

Second, appropriate fiscal decentralisation can motivate local officials to take the initiative to develop the economy. Fiscal revenues in most developing countries are highly centralised with the central government while local governments frequently have rights only over expenditure. In these circumstances, local officials clearly lack incentives to develop the local economy. Granting local governments the right over revenue is a key feature of China's fiscal decentralisation and one reason it is successful. Decentralisation may be even more important for resource-rich countries, where government revenues are highly dependent on exports of natural resources. These countries are constantly troubled by the 'resource curse'. If the central government continues to control resource exports but practices decentralisation at the same time, local governments will look for opportunities to develop other types of economic activities because they have no control over resources, thus putting an end to the resource curse.

Third, giving officials positive incentives is as important as regulating their conduct. Western scholarship begins with the premise that human nature is evil, so restricting the conduct of officials is often thought to be the key to good governance. However,

restrictions are only one aspect of good governance. In reality, officials also have to be positively incentivised to motivate them to do things that are good for society. In China, promotion is a strong positive incentive. Because most developing countries operate under electoral politics, a direct adoption of China's practice is impracticable. A substitute would be to strengthen political parties and give play to their advantages in terms of the selection and promotion of leaders. In this regard, a parliamentary system would be more advantageous than a presidential system. In countries with a parliamentary system, the public elects not just an individual politician, but also that politician's party. In addition, the future of the politician is highly correlated to his or her political party. If a party intends to rule over the long term, it must nurture qualified talent within the party.

The contemporary CPC system is both a product of the socialist revolution and a legacy of Chinese cultural traditions. It is the responsibility of contemporary Chinese philosophers and social scientists to summarise the experience of the past few decades and construct a new theory in language understood by the world. China is about to achieve its first 100-year goal—to become a well-off society. Next, it will set out to achieve its second 100-year goal—to become a modern and high-income country. In between, China needs to enhance its soft power. New theories summarising what China has done right will not only strengthen the country's soft power, but also contribute to the advancement of social sciences globally.

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