



Rethinking neoliberal processes in case of China

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Jana Mudronova

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Members of the Examining Committee:

Dr. Karim Knio

Dr. Thanh-Dam Truong

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Inquiries:

Postal address:

Institute of Social Studies
P.O. Box 29776
2502 LT The Hague
The Netherlands

Location:

Kortenaerkade 12
2518 AX The Hague
The Netherlands

Telephone: +31 70 426 0460

Fax: +31 70 426 0799

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thank you for all the inflamed debates, life lessons, tears and joy*

*To ISS community, students and staff, for precious time that inscribed
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List of Acronyms

CCP	Chinese Communist Party
FDI	Foreign direct investment
FIE(s)	Foreign invested enterprise(s)
IF(s)	Institutional form(s)
IPE	International political economy
MOR	Mode of régulation
PRS	Parisian Régulation School
ROA	Regime of accumulation
RT	Régulation Theory
SEZ	Special economic zone
SOE(s)	State-owned enterprise(s)
SRA	Strategic-relational approach

Abstract

Given the methodological and theoretical discrepancies in existing literature regarding the Chinese economic system, I argue that in order to comprehend dynamics of Chinese economy, we need to unpack China into its subnational units. Through application of Régulation Theory, I emphasize that China does not represent a monolithic entity. Besides theoretical debate, I illustrate the existence at least two distinctive capitalist processes in China, which are manifested in Guangdong and Chongqing models. Existence of heterogeneous subsystems within the country directly challenges the notion of *one China* as a unit of analysis. Therefore I argue that by talking about 'Chinese characteristics' or the China model, authors contribute to oversimplification and miscomprehension of uniqueness of the Chinese economic system.

Relevance to Development Studies

Significance of this research can be pointed out in two areas. First of all, China as the most populous, the fastest growing and soon-to-be the biggest economy in the world remains relevant country to examine. Despite of its unprecedented growth, China is still classified as developing country. Even though the issue is often politicized, the truth is that Chinese people face day-to-day hardship related to changing nature of state-economy relations. Broad discussions on reinventing new, more sustainable growth model for China, have recently spread both in media and academia. It is in the light of these debates, I approach the issue of Chinese economic system.

Moreover, other developing countries inspired by Chinese economic success, have begun to challenge mainstream views on development. This alternative voice united by the countries opposing Western neoliberal domination, can be seen in the light of critical Development Studies, which by restless search for choices open space for dialogue and reformulation of purposes, means and ideas of what is development as such.

Keywords

China model, neoliberalism, hierarchy, complementarity, strategic-relational approach, Parisian Régulation School

Chapter 1

Introduction

“After the economies of Western nations imploded in late 2008...[t]alk spread, not just in China but also across the West, of the advantages of the so-called *China model* - a vaguely defined combination of authoritarian politics and state-guided capitalism - that was to be the guiding light for this century.”

(Wong 2012, emphasis added)

Despite the fact that Chinese economic system dominates both news headlines and research topics of countless amount of studies, it still presents a challenge to IPE literature, as there is no agreement on contextual characteristics of the ‘China model’. Some authors refer to it in strictly economic terms, others link it to its implication in political sphere. Similarly, some writers address it in relation to rigid concepts of Western think tanks and academia, such as Ramo’s Beijing Consensus. At the beginning of the reform era, an initiator of the opening-up, Deng Xiaoping introduced market freedoms as ‘socialism with Chinese characteristics’. However since then Chinese economic system has been labeled as neoliberalism, capitalism or market ‘with Chinese characteristics’. Indeed, if taking a closer look we can detect that these discrepancies result from limited understanding of neoliberalism as such. The only apparent characteristics of the China model that authors seem to agree on, is its propensity for continuous experimentation and learning, expressed in Chinese saying ‘*crossing the river by touching the stones*’ (Lewis 2009).

Research objectives and questions

Based on a current divide surrounding the China model this research seeks to problematize understanding of Chinese economic system in existing literature and to propose an alternative conceptualization taking into consideration interaction between historical, geographical, institutional, social and contextual configurations of power. This is demonstrated in two case studies-

Chongqing and Guangdong. By doing so I am able to account for existence of varieties of models and better understanding of neoliberalism in China.

In order to address the issue of inadequate theorization of the Chinese economic system and to provide a better account of methodological inconsistencies I have formulated the following research question and subquestions:

Given the problematic nature of neoliberalism 'with Chinese characteristics', how can we analyze the Chinese economic system within the scope of current capital restructuring?

As I aim to comprehend where the problem of current analysis originates, I will scrutinize existing IPE literature by focusing on *how authors' own conceptualization of neoliberalism (and capitalism) influence their understanding of institutional changes in China and how authors theorize the Chinese economic system in relation to the concept of China model or 'Chinese characteristics'.*

Complexities of the Chinese case need to be addressed through unpacking "China" by descending to its subnational level- of provinces and municipalities. Here, we need to recognize that localities maintained certain differences despite of centralized nature of the state. To demonstrate the existence of particularities in different subsystems, I will address the question of *how existence of different economic models within China challenge analytical notion of the 'Chinese characteristics' or the China model;* through two case studies of Chongqing and Guangdong. In order to approach the problem of two localities existing within one state, I tend to analyze origins and current demonstrations of different practices as well as examine main fractions of capital and other actors whose behavior, ideas and interests influence the systems.

Justification and significance of my study

Debate on Chinese economic system is closely linked to issues of state-market relations that lie in the center of attention of international political economy. I decided to address the case of China for both personal and professional interests. After having opportunity to experience the country during my studies, on one hand, I desired to

understand why and how China has developed such unique path. On the other hand, my academic curiosity stems from the fact that the country presents a captivating case, challenging all fields of social science.

Since the beginning of reform process, China has been facing various problems, unique both in regard to history and geography. As allegedly said by Napoleon

'Let China sleep, for when she awakes, she will shake the world.'

I suppose she has; in both intellectual and prosaic dimensions.

Structure of the paper

This introductory part is followed by Chapter 2, which serves as contextualization of my research within current literature on China. The chapter is divided into two main parts, each outlining arguments supporting either existence of *one China* or various models within the country. The chapter concludes with information on two localities. Subsequently, in Chapter 3 I provide an overview of Régulation Theory, which constitutes my theoretical framework. As no theoretical approach is without internal debates, I present two distinctive readings of RT- Parisian and Bob Jessop's. Explanation of my methodology and research techniques are presented in this part, as both are inspired by the theory adopted. Further, analysis of two economic subsystems, Guangdong and Chongqing present a core of Chapter 4. Lastly, Chapter 5 offers concluding reflections and summaries of my main findings.

Chapter 2

Outlining the problem: What are ‘Chinese characteristics’?

As presented in the introduction, departure point of how to approach the problem of ‘Chinese characteristics’ lies in conceptualization of neoliberalism. Careful scrutiny of present literature, lead us to observe that most of it, implicitly or explicitly, defines neoliberalism in terms of policies of free trade, prime role of private property and liberalization of capital flow formulated in Washington and Post-Washington Consensus. On the other hand, the marxist interpretation neoliberalism is seen as type of capitalism with its own objective reality that restoration or preservation of class power. These analyses restrict themselves to particular material translation of neoliberal policies neglecting theoretical underpinnings, norms and values they represent. In contrast, some undertake neoliberalism in terms of ideology, collection of ideas, norms and concepts (Turner 2008). Such analyses of the concept of neoliberalism directly reflect on existing interpretations of Chinese economic system.

In particular, there are two major problems detected in present literature. First one stems from methodological inadequacy reproduced by authors who understand China as a monolithic, homogenous unit without any diversity in its socio-economic system. Universal and simplistic understanding of neoliberalism is common characteristics of such studies. Moreover, due to misrepresentation and underrepresentation of several main features unique to China, economic policies of the country are consequently presented as China model. Second issue relates to the work of the authors, who recognize differences in internal structure of Chinese economy and who insist on existence of various models within the country. Even though these analyses can be regarded as methodologically more thorough, there is need to reflect on their basic assumptions and underlying theoretical foundations.

2.1 One country, one system

When examining the notion of China model we have to be aware of the fact that conceptual and methodological confusion results from universalism that many authors resort to. Their disregard stems from an adoption of the benchmarking method, which is based on Western experience and neglects historical, cultural and socio-political specificities and complexities of the system. Analyses are built on appropriation of one of many definitions of neoliberalism (usually related to particular economic practices) and its subsequent application to Chinese conditions. Once the country matches the definition, it is declared neoliberal. The main weakness of such an approach is its descriptive nature as well as the fact that it leads to crude conclusion of necessity of further reforms in order to enhance the current economic system.

First of all, scrutiny of David Harvey's work in regard to neoliberalism as one of the most cited critical authors, points out insufficiency of his explanation of 'neoliberalism with Chinese characteristics', which is caused by unsatisfactory definition of neoliberalism itself. He describes neoliberalism as theory of economic practices such as free markets, free trade and strong private property rights resulting into financialization of everything. It is a deliberate project for the restoration of power in order to create conditions for capital accumulation (Harvey 2005). These norms of socio-economic order are then translated in Chinese settings concluding that China is neoliberal, but with its specific characteristics. Chinese system fulfills requirements of labour exploitation, retreat of the state from welfare sphere and increasing social inequality. Despite the fact that class represents the main actor in Harvey's marxist tradition, he disregards its role in transformation of the system. Consequently, since he does not challenge the concept of *interest* in a consistent manner, his explanation of Chinese project lacks strategic and intentional act exercised by particular group in society as depicted in cases of other countries (such as Sweden or Britain). Whilst, the structure has its objective reality that serves as an instrument for preservation of class power; particular values, ideas and norms specific for Chinese conditions (e.g. starting from Taoist, Confucianism, Maoism, harmony...) do not have impact on the structural change. Vested interest of capitalist class is *the only decisive force* in capitalism and neoliberalism as its form. In his concept

of uneven development he admits existence of different manifestations of neoliberalism. However, the character of neoliberal order is changed only through class.

Similar attention to Chinese institutional arrangements is distinctive for authors comparing Chinese model to Asian capitalism as a part of varieties of capitalisms. Misguidance in factual claims is addressed in the research of Yasheng Huang (2008) who contrasts Chinese system with the experience of East Asia. He concludes that '*capitalism with Chinese characteristics is a function of a political balance between two Chinas – market-driven rural China vis-à-vis state-led urban China.*' (Yasheng 2008: 105). The main limitation of VOC literature is its dichotomist division of markets- coordinated vs. non-coordinated which does not provide scope for acknowledgment of true varieties of capitalisms through concepts emphasizing possibility of coexistence and complementarity in diversity.

On the other hand, the contrasting view of neoliberalism as an ideology, penetrating to every parts of society and altering behavior of individuals; emphasizes its self-governing nature with need for continuous self-improvement. Poststructuralist literature, mainly from a feminist perspective, devotes its research to issues of changing subjectivities, mostly within working class (and migrant workers in particular). It argues that the transformation of an individual is caused by retreat of state from welfare sphere (as part of definition of neoliberalism).

Additionally, Wang Hui, prominent representative of Chinese New Left, describes neoliberalism not only as mere ideology, but allocates specific economic theory to its core. Most importantly, in his work he points out difference in Chinese and Western experience in establishing market reforms, when he states '*strengthening of market reforms was possible not due to withdrawal of the state, but due to withdrawal of society from political sphere.*' (Wang 2003:101)

To sum up, methodological inadequacy listed in previous part, is to some extent caused by disregard to certain specificities of Chinese environment. Hence, there is a need to analyze main issues that are subjects of continual misrepresentation and underrepresentation in current literature.

Misrepresentation and underrepresentation

Continual disregard and mistreatment of several elements in current literature cause oversimplification and further misinterpretation of Chinese economic system. First of all, *misrepresentation*, in general, relates to issues of intense mobility between political and economic elites and decentralization. Even though the phenomenon of cooptation of early entrepreneurs into CCP has been widely studied, most of the authors tend to depict their role in terms of constraints contributing to degradation of capitalist reforms (see Appendix 1). Second problem of *underrepresentation* relates to constant ignorance towards question of class, nature of developmental state, land and household residence system. I will describe them in this order in the following part.

Regarding the role of *class* in China, there is a need for more careful disaggregation of the society. Even though decision-making is controlled by political elites of Chinese Communist Party, as correctly pointed out by Robison (2006), Breslin (2004) and Nee and Swedberg (2007) business class has increasingly gained influence over direction of reform process. Large part of literature focus on negative consequences of economic changes on biggest part of the society-working class (and migrants within the group) however middle class is often omitted. An effort to restructure economy from export-led towards more domestic-led requires strengthening of middle class as driving force of consumption. Roles of these classes differ based on their diverse interest vis-à-vis form of state. Political and economic elites do not represent a homogenous group but otherwise. On the other hand, working class is depicted as a subject of exploitation and as perceived by D. Harvey unintentionally contributing to maintenance of the system. Great differences in labour-wage nexuses within working class (in regards to migrant workers, gender etc.) and middle class; have impact on divergent interests. Moreover, there is a gap in literature regarding interests of different *fractions of capital* in case of China, with analysis of Hong Kong businesses and overseas Chinese community being exceptions.

Secondly, in relation to nature of Asian state there is certain limitation in historical institutionalist analyses, which is restricted to *developmental state*. Traditional strong, patriarchal and interventionist features of the state influenced by Confucian, Buddhist and other

philosophical traditions that reinforced active role of the state within society are not addressed. VOC literature generally compares China with developmental states of East Asia concluding it represent one of the case. Or it associates the Chinese strong state with authoritarian nature of its political system.

The final two elements I focus on are issues of *land* and *hukou system*, as two most omitted aspects. China, in contrast with the other countries that went through transition process, never adopted land reform. The state officially owns land and leases it to the peasants with local government serving as a safeguard and facilitator of the law. Land represents the only source of livelihood not only for peasants, but also for migrant workers, many of who returned to rural areas in the past three years due to economic downturn. Moreover, state ownership of the land is closely linked to economic development of the country, as local governments use land as collateral in obtaining loans from the banks in order to finance e.g. infrastructure projects. Complexity and interrelation of these two factors will be specified in a case of Chongqing model further on.

2.2 One country, numerous models

In this section I will present arguments of different methodological perspectives on Chinese economy by authors who recognize existence of distinctive economic practices in various localities of the country. I will focus on economic systems of two subnational entities- Guangdong province and Chongqing municipality, which are frequently presented as two contradictory models. In the first part I will introduce overview of the economic systems in both areas, which will be followed by summary of explanations popularized by the present literature.

Map 1 : *Guangdong province and Chongqing municipality*



source: 'Migration in China' (2010)

2.2.1 Overview of Guangdong model

Guangdong province due to its coastal location was able to profit from policies of opening up since early stages. First special economic zones (SEZs) and coastal development areas were established in the province in 1980s. Guangdong was chosen to be pioneer of economic reforms due to its geographical proximity to Hong Kong as well as the fact that many Hong Kong businessmen were family-tied to the province. Due to its progressive reform programs and market-centered

policies, Guangdong has been often regarded as most “neoliberal” province in China (see 2.1 of Appendix 2).

From the beginning of the reform, Guangdong officials designed economic policies in terms of outward-orientation of the economy and growth-centered development leading into widening income and rural-urban inequalities. In contrast, current policies focus on moving away from low-end manufacturing toward brand-based industries and service sector (Kuhn 2009) and attracting market-seeking service and capital intensive manufacturing giving Guangdong a leading role in expected national upgrading strategies (Terry 2008) (see 2.2 of Appendix 2).

In relation to composition of its society, Guangdong represents the most urbanized province in China. Trajectory of Guangdong economic development affected social composition of urban population, which consists of not only rural migrants from within the province, but also of high number of cross-provincial migrants, accounting for more than a fifth of its entire population. (Kuhn 2009). In order to address unprecedented social issues related to both migrant labour and the emerging middle class, local government adopted project ‘Happy Guangdong’ of limited governance focused on three aspects- social development, new economic model and political liberalization (see 2.3 in Appendix 2). However, some argue that the program is focused on issues of emerging middle class with objective of its cooptation, while disregarding those who did not benefit from the economic reforms (Qiu in Lim 2011).

Efforts of Guangdong government to strengthen position of NGOs and media, rule of law and transparency manifest more open attitude towards civil society. Moreover, after widely publicized strikes in Honda and suicides in Foxconn factories, the government encourages trade unions to take more active participation in collective bargaining. On the other hand, during recent economic crisis Guangdong demonstrated that it puts needs of market ahead of needs of people, when its Party Secretary Wang refuted recommendation of Premier Wen to subsidize at-risk firms in order to prevent laid-offs (Kuhn 2009). Instead, Wang considered the crisis to be an opportunity for the province to restructure its economy, in terms of eliminating non-profitable, often low-end manufacturing companies. To sum up,

stability, traded for innovation, directly relates to economic growth of the province.

2.2.2 Overview of Chongqing model

Chongqing acquired a status of municipality after separation from Sichuan province in 1997. This administrative amendment relates to both historical role of the region going back to civil war and Great Western Development Strategy adopted by central government in 2000 (see 3.1 Appendix 3).

Even though Chongqing was targeted as a point of growth in the Western region (Hong 2004), its inland position presented disadvantage for its development at the beginning of reform era. The economic growth stagnated and large part of labour force contributed to floating population of migrant workers. However, Huang Qifan, a mayor of Chongqing, appointed in 2001 and Bo Xilai, Secretary of Chinese Communist Party in the municipality between 2007-2012, adopted new development strategy, which objective was to increase both economic growth and living standards of the population. With rising production costs in coastal provinces Chongqing was able to attract numerous multinational corporations. Volume of FDI in the municipality increased from \$311 million in 2003 to \$6.3 billion in 2010, rising foreign trade by 310% (Stratfor 2012).

Active involvement of the state is visible in designing fiscal policies and stimulus packages for foreign investors. Moreover, Bo and Huang called for revitalization of state-owned enterprises (SOEs), which had historically strong position in the region. SOEs contribute 15-20% of their profits to government budget, and thus represent main leading force in social policies, urbanization and massive infrastructural projects (Lu 2012).

'What is innovative about Chongqing is how the welfare projects are financed ...The reason the government can do [social programs] is because public ownership provides revenue for the government.' (Cui 2011)

The concept of SOEs financing social policy is based on the idea that these entities should serve public good and not private interest

(Huang 2011). Broad social programs aiming to decrease urban-rural disparities include public housing (in contrast to private housing preferred at national level) and mainly expansion of urban residence permits (hukou), which gives rural residents access to education, health service and social security (Lu 2012) (see 3.2 Appendix 3).

As migration in Chongqing is dominated by local rural residents moving within the municipality; the reform does not include cross-provincial labour migrants. In addition, the reform enables the local state to take advantage of laid-off skilled workers returning from coastal provinces. The pattern of migration recently changed when intra-provincial migration outpaced migration of Chongqing residents to other provinces ('Changing migration patterns' 2012). Three million permits were issued until 2012. (Lu 2012) In order to prevent rent-seeking activities in terms of land trading, Chongqing announced three years moratorium on land, i.e. rural residents can gain urban status while keeping their land leases for three years and exchange them for shares in specialized peasants' cooperatives, in case they decide to return to the countryside. However, this system has not been able to overcome the problem of land speculations. As the result of the reform effort, new forms of land ownership appeared in the region.

Vast infrastructure projects are financed and carried by specially-designed government investment companies (Big Eight), which have not undergone privatization, and they operate for government purposes only (Huang 2011) (see 3.3 Appendix 3). In regard to industrial restructuring, economic reforms focused on domestic demand with production targeting almost exclusively Chinese market. The strategy reflects increasing domestic consumption in inland provinces, which has outpaced coastal regions (Bo 2009). Domestic investment and consumptions are above national average. Focus on production for domestic market was positively reflected on Chongqing growth, which despite the crisis reached 14% while national growth rate soared to 9% in 2008 (ibid: 43) (see 3.4 Appendix 3).

As Professor Ding argues both Guangdong and Chongqing share similar characteristics common for China model, however they diverge in their emphasis on different components (Ding in He 2011). Social issues are managed through civil society and market in Guangdong, while government is more active in Chongqing (ibid). Diversity in social compositions influences policies the economies adopt (see 3.5 App 3).

2.2.3 Popular explanations of divergent trajectories of both models

As illustrated in previous parts, Chongqing and Guangdong models address key problems of the Chinese economy, although, by providing different policy options. In order to understand how this divergence of development strategies emerged, we need to account for institutional complexity, spatial particularities and political dynamics. Institutional foundations of different economic models are detected in decentralization reforms, which brought reorganization of fiscal policies and tax regimes. In order to ease tension on the center, local governments became responsible for their own budget revenues and spending. The goal of the reform was to incite subnational units to promote development at their level through managing state-owned assets. Government coordinated the enterprises through direct involvement in production or indirectly through creating incentives, providing preferential treatment in forms of quotas, facilitating access to resources and even protecting local market from outside competition. Such local state corporatism led into regional internal competition and created institutional environment enabling adoption of new economic strategies in order to achieve higher growth (Oi 1995).

In addition to reforms in economic policies, system of incentives related to career promotions, bonuses and personal prestige is regarded as supplementary justification of local officials' embracement of the new system. This incentive structure is quasi-institutionalized through nomenclatura system in which officials are evaluated based on their performance. Nomenclatura system is thus a cause for rivalry among the officials while being outcome of political and historical legacy of the past (Edin 2010). In other analysis local officials are perceived as a strategic group who operates based on its own logic and self-perception as being "elite" (see Appendix 4).

I emphasize significance of the above-mentioned theoretical explanations not only regarding academic debate, but also in regard to discussion in present media. Based on Edin's (2010) argumentation that behavior of local officials is driven by non-economic incentives, we can reflect on in-media-conventional explanation of origins of Chongqing model. Bo Xilai, as a princeling, son of wartime general, competed with Guangdong Communist Party Secretary Wang Yang (former Party Chief in Chongqing), for a sit in Politburo in 2012 political

transition. This “cutthroat competition” between the two is often accompanied by suspicions of frauds in statistical data in order to increase economic growth and volume of FDI and thus ensure the officials career promotion. Similarly, Chongqing economic success is also considered in terms of Huang’s (mayor of Chongqing) professional experience in development of Pudong Financial Area in Shanghai.

To summarize, we can observe that the literature regarding origins of various development models depart from the same theoretical logic of voluntarism, emphasizing role of individuals, their networking, decisions, personal interests and aims. Ideas, norms and practices (both formal and informal) are given primary importance in actors understanding of the environment, their orientation and decision-making. In order to account for institutional change and political dynamics, we need to go beyond these individualistic explanations of actions. Not only the theories do not situate the actors in relation to structural architecture of localities, but also they depict actors in their capacity to act on their own initiative. Additionally, these analyses dismiss material component of structural change and thus they are not able to clarify how institutional arrangement can generate modification of the structure and thus regarding individuals as the only cause of the reform process. Moreover, without challenging notion of interest, a reader is left with simplistic conclusion of (non)economic personal interest driving behavior of the actors.

Due to inadequacy of the explanations I would like to propose deeper analysis of both economic models, which would allow me to acknowledge role of material conditions which are intrinsic to given socio-economic systems.

Chapter 3

Theoretical framework and methodology- Régulation Theory

The purpose of this chapter is to account for better theoretical explanation of specificities of two models. We moved from the problem of defining what is incorrect with current analysis of Chinese system to providing more adequate theoretical framework, which allows us to analyze how and why institutions developed in diverse trajectories. I will present basic concepts and arguments of RT, which serves to conceive how particular institutional forms interact with each other and how these relations come together in creating a durable and viable economic system. Subsequently I proceed with internal debate within the theory between two approaches- Parisian and Jessop's understanding of RT. In the last part I focus on methodology and techniques I adopted in this research.

Régulation theory (RT) encompasses different schools bound together by shared theoretical principles originally based on marxist theorization of economy. The theory rejects simplistic and insufficient understanding of market and emphasizes its role as a social institution. Jessop characterizes it as a '*continuing research program rather than monolithic theoretical system.*' (Jessop 1990:2) In accordance with its marxian tradition, all approaches within RT question reproduction of capital accumulation as embedded in social relations. They focus on first of all, continuous nature of capitalism and its transformative capacity, extending to the second sphere of research- structural crisis and institutional change. In order to study complexity of real world, RT formulated analytical tools, concrete institutional forms, which allows us to disaggregate and understand the reality at the level of specific configurations for any given era or geography (Boyer 2002). Régulation is studied '*neither as structuralist model of reproduction nor as voluntarist action*' (Jessop 2001:100). Socio-economic system is contingent and non-intentional with inherent contradictions, gaps and tensions and therefore with tendency for a change or even crisis.

One of the main contributions of RT is its three-level analysis running from abstract to concrete realm using three conceptual tools (Boyer 2002:38). First, most abstract concept, *mode of production*, describes relations of production and exchange governing production and reproduction of necessary material conditions (ibid: 341). It is exactly régulations, or transformations of social relations, which lead to new (non)economic forms and reproduction of mode of production. (Aglietta in Boyer 2002: 343). This first level of analysis is followed by scrutiny of particular social and economic patterns, which allow long-term accumulation of capital. These regular patterns create a regime of accumulation (ROA), which still relates to macroeconomic level of analysis. Last and the most concrete level of analysis is constituted through mode of régulation (MOR) referring to specific social relations expressed in particular era and geography. MOR comprises of five elements- *wage-labour nexus, forms of competition, monetary regime, state-market relations and insertion into international regime* (ibid.). These components reveal set of daily processes and patterns in the economy. Varieties of institutional configurations based on five parts of MOR reflect dynamic practices in the economy and its decomposition represents effort to explain existence of different institutional architectures in the situation of relative stability. It is important to emphasize that the aim of the theory is not to articulate the most efficient institutional configuration producing the highest economic growth, but to examine how, in specific time and space, both MOR and ROA are formulated and how interactions between them occurs.

Due to existing debates within RT, I will scrutinize two distinctive approaches. First, I introduce Parisian Régulation School, which popularized the theory and second, Bob Jessop, who tries to extend the theory to new spatial-temporal fixes and more agential analyses.

3.1 Parisian Régulation School

PRS is based on the work of Aglietta, Lipietz and Boyer and was promoted in the 70s by formulating two distinctive eras of capitalism- Fordism and Post-Fordism representing two distinctive regimes of accumulation (see Appendix 6). Even though PRS originally concentrated solely on the economies of OECD countries and

periodization of capitalism, the emergence of newly industrial economies whose policies challenged the dichotomic distinction of accumulation regimes (extensive and intensive), the theory moved beyond Eurocentrism and began to focus on countries of East Asia and most recently Latin America.

Relevance of PRS to the analysis of socio-economic system lies in its spatial and temporal specificity and substantiveness. It aims to explain contradictory dynamics of, on one hand, transformation of the system and, on the other, its durability. Through detailed analysis of mutual relations between institutions, PRS is able to explain how institutions can be conducive to stability of the mode and consequently of the regime. These relations resulted from certain necessary contingent processes and components essential to the particular system. As such, these processes have their own reality, which pre-exist any other strategic behavior, calculations and interpretations by the agents. Even though there are particular tendencies, which make the system operate in certain ways, these tendencies are activated and manifested through specific relational form, through their combination. It is the interaction of these institutional forms, which is in the center of the attention of PRS research. In the words of Amable the *'theory does not treat objects of its analysis as random collection of institutions...but stress that it is pattern of interrelationship between different elements of the institutional structure that defines it'* (Amable 2000:680)

Additional value of PRS is based on its particular reading of *complementarity* through which they capture relational links between institutional forms. In the line with its careful approach to efficiency logic, PRS emphasizes that complementarity is produced by structural logic. As such, complementarity relates to a state in which presence of one IF results into better performance of another IF (Boyer 2005a: 48-9). Structural logic implies presence of a specific condition under which complementarity emerges. This condition is embodied in the concept of *hierarchy* (Boyer 2005b). Hierarchy manifests vertical relationship between the institutions in which one IF imposes its logic on the others (Helderman 2007). This dominance is not arbitrary, but expresses interaction of spatial and temporal constraints and contingencies in particular system during which formation of institutions happens. As hierarchy captures power relations between IFs, change in dominant institution can cause modifications of subordinated ones in the ways

benefiting the former (Boyer 2005b:9). Put more abstractly, hierarchy emerges as long as necessary internal relations, their contingencies and constraints interact in the way that enables one IF to enforce its conditions and inner design (Amable 2000: 660). As such, dominant institution imposes its logic to the entire MOR.

As complementarity is not a rational act of institution-builder, it can be known only *ex post*. Moreover, in the process of emerging complementarity, we need to be aware of existing contingencies and constraints inherent to the system, which may prevent complementarities to emerge. When analyzing a system, complementarity should not be taken for granted, but should be studied as a result of a process of *experimentation and hybridization* (Hopner 2005). *Co-evolution*, a process of emergence, evolution and adjustment of IFs, is characterized by continuous trials and errors (Boyer 2005a: 52). During this process IFs interact with each other by entering into specific relations and thus giving rise to what-appear-to-be *coherent* economic system (Boyer 2005c: 367). In order for an economic system to appear coherent, an aggregate of compatible, i.e. jointly existent IFs, which do not affect qualitative performance of each other, need to be present in the system. Without coherence, a system is more inclined to failures (Amable 2000). Coherence and dynamics of institutional architecture as a whole is dependent on existence of hierarchical relations, which gives a certain IF greater relative importance (*ibid.*).

PRS holistic understanding allows us to react to criticism of PRS related to its overemphasis on structure while disregarding *role of agents*. First of all, institutional forms themselves are results of social relations. Political and social struggles can create new IFs, which would incorporate new strategies by influence agents and vice versa (Boyer 2003). Alteration of agents' strategies modifies existent social compromise, resulting into renegotiation of new institutional configuration (Boyer 2002). As a result, homogeneity and predictability of agents' behavior encourage stability of the regime. Even though structure influences actions of agents, it does not simply predetermine their behavior.

On the other hand, structure formed by actors opens space for studying of rules and procedures of the mode at given time and locality.

These temporal and spatial specificities allow PRS to analyze economic systems not only at national levels, but also subnational one. Similarly, PRS undertakes dynamics of the structure in its enabling and constraining roles. New strategies of institutional configuration influence agents, whilst institutional forms are outcome of agents' social relations. In addition, predictability of an individual's actions contributes to stability of the regime. On the other hand, instability of the regime can be result of heterogeneity of the actors and weakening of the institutions (Theret 2002). Lipietz, in his effort to achieve *compromise between theories emphasizing structure without agents and agents without structures*, rejected overdetermination of agents' behavior. He argues that actors enter into relations with each other carrying their individuality, however, these relations also gives the individuals specific form which can change the structure itself. (Lipietz in Robles 1994:81-83)

3.2 Jessop's understanding of Régulation Theory

The importance of Bob Jessop, as one of the representatives of RT, stems from originality of his perspective based on ontological foundations formulated in strategic-relational approach (SRA). Firstly, I will introduce basic concepts of Jessop's ontology, followed by their implications for RT.

SRA presents the author's effort to depict complexity of structural configuration and position of actors in relation to context in which they are engaged. In contrast to ontologically simplistic understanding of relations between structure and agency, Jessop rejects their decoupling by emphasizing their interplay and complexity (Jessop 2005). Mutual interaction between structure and actors presents the core of his theory in which he scrutinizes their relations without 'bracketing one out'. Whilst actors reflectively orient themselves vis-à-vis structure and choose path of their actions, structure is denied its neutral role and is seen as strategically-selective (ibid.). In the process of permanent interplay between the two, an actor is able to influence and reorganize structure through calculations, recursive selections, learning and experiences. On the other hand, selectivity as a constitutive character of a structure, allows it to choose among different strategies and tactics (ibid.). Structure is not only

tendential, but it is also time and space-specific. Institutions, as a part of structural configuration, are produced through recursive actions of individuals. They matter, however always in their connection to actors. As argued by Jessop (2001) institutions choose behavior, since selective nature of structure extends to them as well.

The significance of SRA dwells in its relation to structural change. Altering selectivity of the institutions combined with reflexive actors leads to change of institutional arrangements (ibid.). Jessop's emphasis on the role of agency needs to be scrutinized given his effort to overcome the structuralist- ideationalist dichotomy. In his concern with self-reflexivity and recursivity of actors, the author does not leave space for influence of material on environment. Actors are individuals, who orient themselves in the environment they exist in, reflect on it and in which they decide to pursue specific strategy. They also influence particular manifestation of the structure. Persistent interaction of actors' recursively-selected strategies with reflexively-reorganized structure results into state of coherence (ibid.).

Notwithstanding his proclamation to include both structure and agency into his analysis, Jessop is unable to transcend crude understanding of structure as context reconstituted by actions of individuals. Even though he incorporates characteristics of strategic selectivity, he fails to elaborate on material components of structure, its specificity and separability. He does not provide explanation of how selectivity of structure manifests itself and what constitutes structure as such. In addition, actors' abilities to reflect, decide and modify structure and timing of this reflection, are not defined. Therefore selectivity as such, is depicted as ability, whilst it is neglected as a process. Jessop's disregard to materiality of structure results in abstract notion of structural change that is described as a result of actions (through learning process, experience and reflection) and thus intentional behavior of actors.

Nevertheless, Jessop's identification with RT is significant regarding his analysis of economic system. Jessop's emphasis on institutions and coherence is similar to those of *régulationists*. Structural coherence or stability, which is produced through strategic selectivity and actors' strategic calculations, gives rise to regime of accumulation. In contrast to PRS, Jessop extends role of actions into his understanding of modes of regulation and accumulation regime. While

Jessop considers actors (institutionalized class) with specific reflections and tactics as key elements in maintaining structure (Jessop 2006), new generation of PRS emphasizes fundamental position of material conditions that craft particular MOR and further ROA. Moreover, in contrast with other schools he puts more emphasis on continuity rather than discontinuity, i.e. crises. As such, ROA in his interpretation is characterized by structural coherence. Likewise, by arguing that structural configurations of MOR are recursively selected and evolve over time, Jessop is unable to justify why structural changes in MOR take place and how strategies that lead to their selection become dominant. Strategic selectivity not only characterizes previous, "old" structure, but also causes its change and becomes an essential characteristic of newly-emerging coherence. This interpretation of his main concept, however, does not substantiate the reasons of the change, its process and qualitative results.

In relation to SRA, PRS moves beyond Jessop's intertwining of agency and structure in terms of his recursivity and reflexivity. Individuals are always situated within complex of networks, norms and rules and regarded as pre-existent, i.e. formed by historical past (Boyer 2002). In addition, PRS accomplishes better theoretical formulation of the structure, by specifically distinguishing its two forms- MOR and ROA. They successfully overcome insufficiency in Jessop's argumentation of structural change, which is seen as result of selectivity of the structure and reflectivity and recursivity of agents. Concepts of complementarity and hierarchy allow us to examine institutional architecture in its evolutionary dynamics, mainly its changes. Dynamic analysis of institutional forms creating MOR enables theoretically and methodologically deeper research of economic system and its change.

Conclusion

To summarize, even though Jessop's analytical treatment of structure and agency opens a space for deeper analysis of interaction and complexity of the two, it does not provide us with sufficient understanding of the conditions under which the structural selectivity occurs. Such inadequacy then leads to inability to explain material change per se. Therefore, there is a need for further analysis of how

structures privilege certain strategies, actors, identities and actions. Comprehension of the relation between economic structure and its elements will enable us to address gaps and discrepancies scrutinized in the previous part. Emergence of these features is interrelated and their existence interdependent. It is possible to uncover intrinsic components of Chinese system through analyses of institutions, relations, norms and ideas that help formation and reproduction of the structure, in their connection to its material foundation.

3.3 Methods and methodology

In relation to my methodology, analytical tools formulated by PRS, namely complementarity, hierarchy and experimentation present core instruments on which I base my analysis. At an empirical level, my analysis consists of a comparative case study of two economic models- Guangdong and Chongqing. My choice of the models was conditioned by existence of vast amount of available literature, as well as the fact that these two systems are currently the most notable ones. For demonstration of particular differences between two models, I will use embedded case study focusing on relations between particular institutional forms informed by RT as my theoretical framework. The theory allows us to understand how institutional architecture of the economies affect regional development in particular provinces.

I would like to point out the fact that I am aware of discussion surrounding a concept of 'model' itself. Many Chinese economists and academics reject the term, emphasizing its inaccuracy as it can create connotation of truly decentralized economic system, with provinces (and municipalities) enjoying decision-making power (Yang 2011:3). However, I use the term model as an expression of distinctive economic system operating at subnational level in China, which can be determined by geographical boundaries of provinces and municipalities.

Regarding data collection, my research was conducted through interpretation of primary and secondary literature from critical IPE as a main source-including research and working papers, journals as well as local newspapers, archival documents- statistical and budgetary records, together with legal provisions of local governments. Active

knowledge of Chinese language enabled me to access official documents, local media and blogs. As limitations of my research I would mention inability to undertake fieldwork, however due to current political situation regarding stricter supervision of foreigners in the country, as well as turmoil surrounding persona of Bo Xilai and other officials in Chongqing, my presence in the province would not guarantee easier collection of the data. As much as Chongqing model was praised after current crisis affected economic performance of Guangdong and other coastal provinces, it is currently under severe criticism mainly due to political scandal of Bo shedding light to criminal and illegal practices in the office. Furthermore, I encountered biased and limited information on certain contested issues mainly related to censorship in Chinese media and biases in Western popular media, which tend to incline towards simplistic and catchy framing of the issues (such as in case of rivalry between Bo and Wang).

Clearly, the issue of Chinese characteristics can be address from different perspectives, however from my own ontological and epistemological standpoint, RT represents the most suitable theoretical framework which takes into consideration complexity of the topic and has been proven to be able to capture it at all theoretical, analytical and empirical levels. By scrutinizing individual institutional forms I was able to analyze how their mutual relations give rise to particular institutional arrangements in both economies. Nonetheless, PRS allowed me to see how differences in regional institutional architecture are manifested and how they affect production, distribution as well as accumulation of capital. Moreover, through analysis of the mode(s) of régulation in China, I am able to challenge methodological fallacy of understanding China as a homogenous unit of analysis.

This paper was inspired by current debates on China model and rivalry of Bo and Wang depicted as cutthroat competition in the light of current once-in-a-decade transition of political power. My dissatisfaction with voluntarist explanations led me to scrutinizing of existing literature, where I identified additional problems (outlined in Chapter 2). In order to understand how evolution at national level affects development at subnational level, I firstly studied Chinese reform process in general. This was important, as China represents a centralized system, in which provinces and municipalities have to act in accordance with decision taken at higher level. In addition, this

historical analysis allowed me to account for time element presented both at national and subnational levels. Later I proceeded with interrogation of each system separately, focusing on particular IFs informed by my theoretical framework. I approached the issue with the hypothesis that differences in developmental paths cannot be explained by behavior of main actors only, but I assumed there must be certain intrinsic conditions existing in each economic unit. Therefore, I examined the nature of the economies, particularly composition of industries, connection to global market through exports and FDI inflows and growth rates. In order to address wage-labour nexus, I analyzed ownership forms in the economies by looking into presence of domestic, foreign, privately and state-owned enterprises etc. I also explored latest adopted policies in order to comprehend advancement of the reforms. The PRS and their IFs helped me to deconstruct the economic systems focusing on specific issues, such as wage determination, forms of competition...The concepts of complementarity and hierarchy, on the other hand, enabled me to comprehend how IFs link to each other and to understand significance of those relations.

Chapter 4

Analysis – Are there ‘Chinese characteristics’?

‘While purposive institution-building undoubtedly exists, analytically it must be placed in the context of the on-going evolution of social systems, among other things by recognizing the inherent limits to the cognition of even the most powerful actors and to their effective control over the behaviour of others.’

(Streeck in Crouch et al. 2005: 365)

As existing explanations shed little light on how *specificities of regional economies* resulted into unique systems and how different *institutional architectures* relate to each other, my analysis will focus on these particular elements. It is apparent that both models are viable in terms of stimulating economic growth, however, what needs to be explained is how different institutional forms relate to each other in order to bring desired economic results.

First of all, when analysing economic systems at subnational level, we need to clarify their vertical relation with higher, national unit. Understanding sequencing of the reform process reminds us that institutions did not emerge at the same time, nor they carry the same significance. Moreover, as relations between institutions alter over time, the concepts of complementarity will allow us to explore mutual interconnection between different IFs. Subsequently, we cannot disregard interests and actions of various groups at both national and provincial levels. As I reject deterministic formation of institutional order, there is a need to analyse institutions in respect to social compromise, which results from negotiation, reformulation and decision-making of specific actors present in the system. In the following parts, I will continue to examine institutional structure of Guangdong and Chongqing model, by applying analytical tools of PRS introduced in previous chapter. In the final part, in order to emphasize relevance of PRS, I will link Jessop’s understanding of RT into my case study.

4.1 Two-phase transition at national level

'Reform is China's second revolution.'

Deng Xiaoping 1985

By scrutinizing institutional reforms in the past four decades, we can observe that in the first phase of the process central government focused solely on rural areas. Changes in household responsibility system led to increasing labour productivity and output. Emergence of labour surplus was addressed by industrialization of the countryside through township and village enterprises (TVEs). Contribution of TVEs can be seen in modification of production and managerial structures. In addition, they challenged monopoly of state-owned enterprises, which until then presented the only form of ownership. Rising profitability of TVEs led to sharp increase of wages and productivity (Naughton 2007:90-100). In 1979 Guangdong was among first provinces assigned to establish special economic zones (SEZs). Even though these were inspired by export-processing zones in Taiwan and South Korea, in China through process of hybridization and experimentation they were assigned unique features, which contributed to their extraordinary success (see Appendix 7).

In the second phase of the reform (from 1993) the government had to face decreasing profitability of SOEs as well as high inflationary pressures. The attention of new reforms was drawn to urban areas and included restructuring of ownership relations. Privatization of SOEs and TVEs resulted into diversification of ownership structures ranging from fully (national, provincial or local) state-owned enterprises, collectively owned firms, joint ventures to fully foreign-owned companies. Such diversity affected segmentation of labour market with newly emerging heterogeneity of wage-labour nexuses. Detailed analysis regarding specific manifestations of such heterogeneity will be addressed in following sections (for overview of two phases refer to Table 2 Appendix 7).

Unequal income distribution together with bias towards coastal provinces contributed to increasing rural-urban divide and coastal-inland disparities. Insecurity in labour market as well as inadequate financial structures, increasing prices and stagnant minimum wage led to underconsumption while level of household savings soared. Restrictions on access into world markets through SEZs were abolished

and number of SEZs and development zones has been rising. In order to tackle regional disparities central government adopted several preferential policies encouraging domestic and foreign investments in inner provinces (Great Western Development Strategy is a part of these initiatives). Most recently, the Central Bank announced three steps reform plan for capital market controls with reaching free convertibility of RMB in its last phase (Rabinovitch 2012).

In my analysis of institutional complexity, I do not question institutions separately, but otherwise, in their relations. As illustrated by Boyer (Figure 1) institutional architecture needs to be perceived in the dynamics of formulation, redefinition, contestation and subsequent reformulation of institutions, their roles, norms and rules. By referring to concepts of hierarchy and complementarity, we can observe how reforms adopted in accordance with opening up policies since 1979 led to institutional compromises and deepening of reforms in first and second phase of the process. However, minor transformations can result in major institutional change, if actors in pursue of their vested interests reinterpret or modify existing rules. Such deviation can lead to redefinition of institutional order or its reinforcement. However, we also need to be aware of the fact that institutions are not just self-sustaining entities existing outside of social settings. On the contrary, institutional complementarity is analysed in relation to decision-making processes leading to social compromise (Amable 2005). As PRS argues for situated rationality of actors, PRS examines actors' position in the system with regard to constraints, organizations, rules etc. (Orléan in Boyer 2002:13)

Figure 1: *Dynamics of institutional change*



source: based on Boyer 2003: 193

Based on the previous inquiry of the reform process, I depict crucial actors who influenced transformation of rules of the games, focusing my attention on how their incentives shaped practices in the adjusting systems.

Firstly, the leading force of the reform process has been the *CCP*, which in spite of being the only ruling party for the past sixty years, should not be regarded as a monolithic organization with one sole voice. Recent political turmoil regarding corruption scandals and debates on restructuring Chinese economy revealed tensions between several factions within the Party. The most noticeable division is between princelings, i.e. offsprings of influential senior officials, often dating back to civil war; and representatives linked to Communist Youth League, i.e. youth movement affiliated to the Party (see Appendix 7). These blocs based on status and personal ties are accompanied by ideological factions of Neo-conservatives, who support gradual economic transformation without necessity of political reforms; the New Left who believe in socialist values and critically assess capitalist reforms; Liberals who encourage market reforms and formation of middle class; and so on.

Secondly, as mentioned earlier, fiscal decentralization contributed to empowerment of *local governments*, which welcomed economic reforms, and mainly creation of SEZs as they led to increase in budgetary revenues and foreign exchange. Local political elites form strategic group, which operates within networks in order to maintain social stability and achieve economic development in prospect of career growth (Heberer 2012). Their embeddedness in the structure of nomenclatura system constrains their behaviour while decentralization gives them autonomy in their decisions.

Besides abovementioned actors who facilitate reforms in a political realm, the transformation process was favoured and contested by diverse *fractions of capital* including but not limited to state-owned and foreign-invested enterprises, domestic and international financial institutions, export and domestic-oriented capital, Hong Kong business elites etc. Creation of TVEs and establishment of foreign-invested enterprises in SEZs threatened monopolistic positions of SOEs. The ones, which were unsuccessful in their managerial restructuring, faced bankruptcy. Management of both SOEs and TVEs took advantage of the process through conducting insider privatization (Naughton 2007). On the other hand, the state kept control over strategic industries and assigned some SOEs a role of national champions. These flagship enterprises enjoy tax relaxation and are favoured by state banks in their loans and collaterals. In addition, they are closely linked to the Party in its organizational structure, as the Party controls appointment of CEOs and many now-influential officials previously held posts in these firms. In fact, the companies symbolize success of Chinese economic development and thus contribute to legitimacy of the regime (Brodsgaard 2012). In relation to domestic financial institutions, the fact that China has not undergone broad liberalization of financial sector, influences strong position of state banks and local investment corporations. Bank reform in 90s led to consolidation of four national banks¹, which rarely provide finances to private sectors. Local investment corporations emerged in response to local governments' lack of authority to borrow money on financial markets. Even though they were established as an instrument to support public investment, the fact they can enter private financial markets combined with lack of

¹ Also called 'Big Four' include The Bank of China, China Construction Bank, Agricultural Bank of China, Industrial and Commercial Bank of China

transparency in sources of their revenues, sheds little light on their interests and practices.

In addition to domestic financial institutions, foreign investment banks, in particular Goldman Sachs and Morgan Stanley were invited in the 90s to advice on commercialization of strategic SOEs with aim to enlist them in international stock markets (Walter in China's red capitalism 2011). They lobbied Beijing for restructuring of telecommunication sector and they overlooked creation of China Mobile. As the authors conclude '*international financiers, as minority stakeholders, and China's central government, as its owner, made a fortune by creating a 'paper company'.*' (ibid.)

'Goldman Sachs and Morgan Stanley made China's state-owned corporate sector what it is today.'

(Walter in Hung 2011)

Similarly, *Hong Kong business elites* with personal and professional ties with mainland China took advantage of early stages of economic reforms, when 90% of the city manufacturing relocated within first years after establishment of Shenzhen SEZs. Hong Kong also represents the highest contributor to FDI inflow to China until now. Finally, foreign-invested firms, which present export-oriented capital have benefited from low production costs, including preferential policies, low minimum wages and fragmented labour market. On the other hand, domestic-oriented capital, organized mainly around heavy industries, such as steel and mining, remained in control of the state.

As we can observe various actors participated in the reform process. However, as the purpose of this research is to provide analysis of MOR, the purpose of the abovementioned overview of crucial fractions of capital and political groups, is mere depiction of leading agential forces through which I can identify dominant institutional form in each model. As more profound inquiry into what constitutes these forces and under which conditions they interact and how they formulate their interest presents analysis of ROA, which is not subject of this research, I refocus my attention to two models, which are in PRS defined as MOR. Therefore, I will proceed with investigating how

reform processes at national level influence formation of current institutional arrangements of Guangdong and Chongqing economies.

4.2 Guangdong model

Based on the information provided in Chapter 2, it can be observed that the province has historically tended to be highly connected to international system. I argue that given existing observable practices and conditions, *state-economy nexus together with nature of insertion into world economy* present dominant institutional form in Guangdong model. Hence, there are two issues to be explained. First, how this hierarchical relationship is manifested vis-à-vis other institutional forms. Second, how institutional forms interact with each other in the environment of numerous actors pursuing their interests.

I argue that the reforms described above, have altered the structure of the provincial economy and thus contributed to its unique path of development. Centrally governed SOEs coexisted with provincial and local SOEs, TVEs in public hands, the ones privatized by insiders, merged or sold as joint ventures, joint stock cooperatives etc. This is to emphasize that different practices of ownership were reinforced and manifested in emergence of new practices and in wage-labour nexus, which will be elaborated further on.

a) Production forces and nature of the economy

First, preference of the state towards foreign-invested enterprises (FIEs) changed after restructuralization of SOEs led to massive laid-offs. FIEs' position was strengthened as they were regarded to be an adequate option for absorption of surplus labour force (Phelps 2003). Currently, 35% of firms in the province are foreign owned² producing 53% of industrial output value and over 60% of output value in light industries; while only 3% of enterprises are owned or held by the state (SBGP 2011). In addition, the economy is dominated by monopolistic competition among coexisting international firms, provincially owned enterprises and private firms. FIEs as part of export-oriented capital welcome preferential policies adopted by

² including Macao, Hong Kong and Taiwan

provincial and local governments, including easing restrictions on import-export business as well as suppression of minimum wage (as it was not until 2004 when minimum wage increased³). With regard to industrial structure of the economy, manufacturing (mainly of low value-added products) maintains its principal share in export. Even though Guangdong continues to attract biggest share of total FDI inflow to the country, 20%, this proportion has been declining since the crisis. Most of the FDI goes to manufacturing, including mechanical products, electronics, and computer accessories, with a share of tradition industries, such as toys and garments remains high. (ibid.)

b) Wage-labour relations and heterogeneity of ownership structures

Character of wage-labour relations is on one hand, directly affected by the state policies (as in case of minimum wage), on the other, it is shaped by government decisions indirectly. Bankruptcy of SOEs and support of private ownership modified notion of iron rice bowl, which guaranteed lifetime social welfare to employees of state enterprises. Labour mobility and reforms in wage determination (which were tested in Shenzhen, Guangdong) led to greater flexibility of the labour market. The study by Liu (Liu et al. 2004) showed that presence of FIEs contributed to transformation of the labour market in several crucial ways (see 8.1 Appendix 8). I extend his findings and conclude that presence of FIEs not only affected sectoral, geographical and institutional segmentation of Chinese labour market, but also caused increasing heterogeneity of Guangdong labour market based on production strategies of companies. In such way, they contribute to emergence of new segmentation, i.e. wage differentiation by country of origins, employee structure (geographical and skill-related), in return to human capital and hiring.

To summarize my argument, changing nature of ownership structures and industrial composition of the economy are directly linked to new relations in wage-labour nexus. I argue that Guangdong wage-labour nexus is in its nature accommodating, i.e. it complies with

³ Terry 2008

plans and needs of the state, mainly in its export objectives. To illustrate this, brief analysis of how heterogeneity of ownership relates to existing practices in wage-labour nexus will follow.

c) Post-Fordist organization of production and its impact on wage-labour nexus

Vertical disintegration of production, flexible specialization, standardization and economies of scope typical of recent decades, led to modification of social relations. No matter how we name this organization of production (post or neo-fordism, taylorism or Wintelism) their common characteristics of deskilling of workers, polarization and segmentation of work, standardization of labour process and uniformity, hold (see 8.2 Appendix 8). In Guangdong, globalization of production reflected in emergence of specialized towns as specific forms of agglomeration characterized by high concentration of localized industries conducted by firms of various ownership structures (Bellandi 2007:708). Contract manufacturers who present main production cells are organized either in large industrial parks or networks of mid-sized well-connected plants (Luthje 2004). Enterprises benefit from cheap migrant labour and domestic patriarchal organization. In respect to traditional concept of iron rice bowl, which was dismantle in the process of marketization, Guangdong maintained workplace-based housing system, in which quality of accommodation and food depends on one's workplace and become more essential for a worker's life than quality of work itself (Luthje 2004:11). In combination with temporal nature of labour contract and weak position of trade union (discussed below) workers resistance remains individualized and unorganized (ibid.).

To highlight, expansion of contract organization of production with all its specificities in China would not be possible without SEZs and development zones in Guangdong, which enabled penetration of the system into the economy. Nature of the wage-labour nexus described in previous part, characterized by unskilled labour with stagnant wages, low level of consumption and high level of household savings; facilitates existence of the flexibility of production structure.

Additionally, forms of competition are complemented by two other specific structures. First, due to lack of reform regarding labour

rights, trade unions have maintained weak position characterized by deficient bargaining and representative power. Second, current practices in vocational education and training produce young disciplined workers, an army of labour, in accordance to needs of the market (Yu 2010).

d) The Party as a ‘neutral coordinator’⁴

Even though the Party does not represent fraction of capital per se, its close connection to business elites and the fact it represents the interests of the state at both national and provincial levels, means that it cannot be omitted from our analysis. First of all, the state is characterized by less active involvement into the economy, political and economic openness and rule of law (Gore 2012). On one hand, the state limits its participation to formulation of general growth plans, identification of flagship industries and setting regulations. On the other, we cannot neglect its visible hand at the beginning of the reform era. However, this is not to classify it as purely market-led or state-led. In addition, we can observe differences in priorities, as while Chongqing officials emphasize equity over efficiency (Yang 2011:5), Guangdong leaves space for competition and market. The attitude of Guangdong Party Secretary Wang towards the economic crisis in which he allowed market forces to manage elimination of weak businesses, mentioned in previous chapter, validates such tendencies.

Secondly, as the state is in constant competition it continues to adopt new strategies in forms of preferential policies to maintain its comparative advantage. New regulations include preferential treatment of high-tech and new-tech firms, foreign funded companies transferring technology to China or investing in research and development and promotion of indigenous knowledge through subsidizing patent registrations. What is crucial is not the question if China manages to move up the value-chain through capturing profits in setting up international standards, or by other means (e.g. production of high value-added goods), but to realize that such transformation would necessarily change nature of wage-labour relations.

⁴ CLB's analysis of Guangdong...2010

Lastly, vis-à-vis its population the state uses economic growth as a mean of the Party and regime legitimacy and therefore try to balance low wages through price control mechanism and limited provision of social services. Housing reform analysed in following part illustrates how interaction of insertion of the state into economy with its insertion into world markets dominates other institutional forms- wage-labour nexus and forms of competition.

e) Housing reform- commercialisation with Guangdong characteristics

Retreat of the state from provision of social services reflects transformation of state's relations and practices towards wage-earning class. Housing provision represents one of the aspects of such changes. Shenzhen, in Guangdong, presented a laboratory of liberalization efforts (See 8.3 Appendix 8). Since 90s new forms of housing allocation and investment mechanisms were adopted resulting into current liberalization of both housing and investment markets. These are in line with commercialisation of social services, in which increasing profits are the only motivation for providers of services. In spite of existing demand for affordable housing, low profitability and slow rates of return discourage both local governments and *private investors* to participate in the construction.

Analysis

In order to comprehend complexities of Guangdong case we need to take a step back and see how concepts of complementarity and hierarchy allow us to unpack relations between institutional forms in the economy. I detect two dominant institutional forms in the economy. First, state insertion into economy. Even though state is limited in its insertion, it still represents a leading force in adopting and implementing economic policies, however leaving the rest of the space to the market. Second, as economic growth of the province is investment-led, in which source of investment is derived from export revenues, combined with global demand-driven nature of production, we can conclude that insertion into world economy represents equally dominant institutional form.

State-adopted strategies towards domestic-oriented and export-oriented capital, labour force, trade unions and financial institutions are subordinated to needs of the global market. Presence of international capital created pressure on economic actors preserved from pre-reform era (such as SOEs) and led to their restructuring and subsequent privatization. In the context of various ownership structures coexisting with each other, specificities of wage-labour nexus *reinforce* existing forms of competition. Put more precisely, these specificities include transformation of labour market, reformulation of wage determination and increasing flexibility of labour force. Subsequently, by forms of competition I emphasize existing industrial structure, characterized by disintegrated production process dominated by contract work, hourly wage, weak social protection and individualized worker resistance.

This is not to say that current institutional architecture, as we observe it now, was intentionally designed by policy-makers. On the contrary, incentives and constraints generated by complementarity between production organization and wage-labour nexus, are result of continuous adjustment and social compromises between the actors-production forces (FIEs, SOEs, TVEs...), workers (unskilled, migrant rural workers, middle class...), trade unions, financial institutions (local investment corporations, state banks...) and the Party (including its factions). In relation to evolution of institutional forms, complementarities and compatibilities are results of both hybridization (importing institutions and their successive adaptation to domestic institutional forms, as in case of SEZs inspired by special export zones in South Korea and Taiwan) and the process of experimentation (Höpner 2005).

Regarding two problems mentioned in the introduction of this section- demonstration of hierarchical relationship towards other institutional forms and manifestation of institutional forms in relation to actors in the system, I would like to point out the most crucial conclusions. First, weakened coherence of rural and urban division of labour caused by creation of household responsibility system, was revised by establishing of SEZs and strengthening of private businesses, including FIEs. Consequently, with increasing inflow of FDI, the province exploited economies of cluster, scale and scope. On one hand, reopening of the economy through SEZs has brought Guangdong unprecedented growth; on the other it has led to its higher dependency

on global markets. In addition, subordination of the state to vision of economic development through export-led growth was demonstrated in state-supported suppression of minimum wage. Second, constant competition the state is in means, that adopted strategies have to meet needs of the market, while do not disrupt fragile coherence of the system. Monetary regime, namely control of inflation and adjacent exchange rate serve as instruments in support of Chinese competitiveness. Third, officials are aware of limitation of current economic model, mostly related to underconsumption (see 8.4 Appendix 8), and thus new strategies are being adopted. Based on latest reforms, such as introduction of local bonds, which can be sold on national financial markets ('Guangdong province' 2011), there are no signs of slow-down or diversion of liberalization tendencies in the province. On the contrary, the Party tries to accommodate requirements of newly emerging middle-class and increasingly more outspoken working class. Encouragement of stronger position of trade unions in terms of collective bargaining and dispute coordination, serves as an instrument of the government to secure stability, through greater participation of the people without extensive involvement of the state.

4.3 Chongqing model

'[T]he essence of the Chongqing experience is not any specific policy or institution, but the capacity of self-learning and constant adaptation.'

Wang Shaoguang 2010⁵

Similarly to the previous analysis, when dealing with scrutiny of Chongqing economic system, we need to account for two elements-temporal and spatial. Economic development of the municipality has been influenced by diverse internal and external forces taking place in different moments of its history. Earlier during Maoist era, Chongqing represented an important centre of heavy industry, which created a base for its current industrial structure. Since the 90s the municipality has been assigned specific role in economic development of China, starting from construction of Three Gorges Dam, economic rebalancing

⁵ Director of the Department of Government & Public Administration, the Chinese University of Hong Kong (in 'Chongqing pioneers' ...2010)

of Western region and initiatives related to green economy and rural-urban integration.

The purpose of the following part is to demonstrate that the manner in which the state is inserted into economy influences interaction of other institutional forms. As restructuring of Chongqing economic system represents a unique case, it deserves a careful examination with focus on changes in SOEs and in public financing. I will sketch a role of FIEs as domestic-oriented capital and its relation to remaining institutional forms in the model. Unique reforms that carry 'Chongqing characteristics' are addressed in the last part of the section.⁶

a) Nature of the economy

At the beginning of the reform process, development of Chongqing did not deviate from the path of other inland provinces. Even though it became first inland port to open to foreign trade in 80s (Larson 2010), Chongqing's role in the national economy was limited to serve as a pool of rural migrant workers leaving for work in prosperous SEZs on the coast. Particularity of Chongqing case became visible during SOEs restructuring process, which was required as many state companies were operating at a loss and were burdened by debt. The government decided not to let the companies and banks that acquired their debts go to bankruptcy; nor provided them with funds. Instead, under the leadership of Mayor Huang, government established the Assets Management Company, which took over banks and enterprises with the objective of their reorganization into government-owned corporations dedicated to public benefit (Huang 2011:579). Within this restructuring plan, government established eight investment corporations (Big Eight) mentioned in Chapter 2. Since consolidation, Chongqing's state-owned assets have risen six times to value of more than a billion yuan in 2009 (ibid: 580).

Currently, the economic growth of the municipality is more dependent on consumption and domestic demand than in other

⁶ I would like to emphasize that I intend to move away from politicized debate surrounding Chongqing and Guangdong model presented in current media and offer analysis of economic system of the model. What is important, is not if Chongqing presents a new future for The Party to legitimate itself in its return to "true socialism with emphasis on equality" or not. What matters in this paper is how interaction between Chongqing's IFs lead to emergence of unique system.

provinces. In addition to appointment of flagship enterprises, the municipality took advantage of increasing production costs in the coastal regions and through preferential policies attracted high volume of FDI. Chongqing maintained the lowest corporate tax rate (15% in contrast with national average of 25%; Gore 2012) low even in comparison with other provinces in Western China. Currently, 90% of total industrial production in the municipality is designed for domestic market (Bo 2009:46). Therefore, both domestic and foreign enterprises operating in Chongqing represent domestic-oriented capital.

It is exactly above-outlined restructuring process which constitutes a base for my subsequent analysis of the complexity of Chongqing economic model and which allows us to understand why particular policies and reforms have been adopted.

b) Restructuring with ‘Chongqing characteristics’: Role of Big Eight

Chongqing’s investment firms represents one of the most important actor in the economy. As argued earlier, the corporations preserved tight links to Chongqing government and can be regarded as municipal SOEs (WB 2010:19). Even though in their function, Big Eight resembles typical local investment corporations, their operations are not financed through government borrowing. Instead, their income is derived from market income and appreciation of government-owned assets; particularly land (Huang 2011). In addition, they are allowed to enter financial markets for borrowing where they can also use land as security (World Bank 2009). The companies represent financial capital and as such hold monopoly of investment and realization of state-designed public infrastructure projects. Therefore, they would not benefit from liberalization reforms enabling private sector to enter sphere of public services such as in case of Guangdong. In order to secure sufficient capital for their operations, government initiated land reform and gave them the right to acquire government assets, including state land and enterprises.

c) Organization of production- role of SOEs and FIEs

SOEs act as a crucial source of the state revenues since they contribute 15-20% of their profits to government budget⁷. Their profits are subsequently used for financing infrastructural projects, including social security, education and public services (Huang 2011: 586). Strong position of SOEs was preserved due to Huang's restructuring process and was build on historically strong position of heavy industry dominating the region. Steel sector and reserves of natural gas were used for development of new areas, mainly motorcycles and auto sector, auto parts, light industrial goods, such as computer parts; chemicals and pharmaceuticals (ibid.).

In order to overcome its geographical disadvantage, Chongqing reformulated production strategy from 'two ends outside' to 'one end outside, one end inside'. In case of HP, which relocated from the coast to Chongqing, original strategy of importing computer parts and assembling them in China was not possible. To persuade HP to set up its production in the municipality, Mayor Huang convinced Foxconn, the biggest electronic components producer to build a factory in Chongqing and thus provide HP with necessary parts. This way, components are both produced and assembled on site, without need to import them (Huang 2011: 571-572). Additionally, local banks favor domestic businesses and thus serve as a tool for development of domestic enterprises rather than FIEs.

d) Housing reform and other reforms in provision of social services

All three reforms analyzed in this part are interconnected and create a suitable example of how active state involvement in the economy shapes social policies in order to reach its objectives.

Land reform introduced in Chapter 2, needs to be scrutinized in its relation to hukou reform. Land (together with SOEs) represents main contributor to state revenues. As mentioned earlier, rural migrants who worked in cities of Chongqing municipality can obtain urban residence permits allowing them to access social services they

⁷ This share represents the highest contribution of SOEs to provincial/municipal government budget in China (Lu 2012).

were previously deprived of (for more details refer to 2.2.1). A rural resident who decides to leave countryside will gain a land certificate, which can be sold or exchanged on land exchange market. Such exchange does not serve for ownership change only, but also allows changing residential or cultivated land for land designed for urban use (Huang 2011:597). This allows the state as well as private investors to take advantage of land appreciation in long-term. Even though it is argued that rural migrants can maintain control over their land, it is expected that expansion of urban residence statuses will lead to transfer of 2.6 mil mu⁸ of land (ibid.). On one hand, such system allows government to keep control over the land, instead of giving it solely into hands of private developers (Huang 2011). On the other, new innovated land market resembles emission permits trading (ibid.).

Thus, it can be argued that reformed land market is in fact extended liberalization of land trading as it operates exclusively through exchange market (similar to carbon trading). Moreover, I argue that the land reform and its extension- hukou reform; were adopted in accordance with needs of financial capital, i.e. Big Eight.

The hukou reform relates to another area, which popularized Chongqing, *housing reform*. Expansion of urban residency, together with migrants returning from coastal provinces created a need to provide them with adequate housing. As mentioned, the Big Eight is in charge of construction of social housing which rental is 60% of market rate (Goldman Sachs 2011:28). Residents will be able to purchase their apartments after five years, however they will not be able to sell them freely on real estate market, but only back to housing authority (Huang 2011). Such restrictions can prevent speculation and potential bubble.

Through excessive involvement of the local state and its investment companies, which provide not only finance but also physical construction of the housing, we can observe how Chongqing model differs from the rest of the country. As described in case of Guangdong, the government's help ranges from provision of subsidies and construction of exclusive housing to latest opening of the market to private investors. As a result, social housing has been commercialized and suffers from undersupply. As emphasized by Huang, in Chongqing low-cost housing is designed for 30% of urban population, while

⁸ Approximately 1700 km²

commercial housing serves remaining 60% of population (ibid: 593). Recently, new tax rate on luxurious housing was adopted manifesting redistribution nature of Chongqing fiscal policy. Contrastingly, it is interesting to be reminded, that Guangdong prefers instruments of monetary policy, including recent release of local bonds.

e) State involvement in the economy

As we can see from previous analysis of reform processes at municipal level in Chongqing, the state represents the most dominant institutional form and its involvement in the economy and social sphere is more than explicit. In addition to designing the reforms and restructuring investment corporations and SOEs, the Party and mainly its Secretary Bo Xilai undertook various initiatives. Apart from above-mentioned Striking black-Singing red campaign, Bo initiated restructuring of police system and personally engaged in collective bargaining during widespread taxi drivers strikes. He supervised investigation of the source of the protest leading into sentencing of a businessman for 20 years of imprisonment for organizing the protest ('Governing China' 2011). This is to say that in contrast with Guangdong reforms aimed to strengthen position of trade unions, there is no such a progress in Chongqing. Thus, the position of the unions remains weak, while involvement of the state in labour-capital relations stays strong.

Furthermore, the state goes beyond traditional fiscal and monetary policies to achieve decrease in rural-urban divide, as it influences microeconomic structures via regulatory measures in order to increase income of rural residents within 10 000 Yuan income program (Yuan 2011). In comparison with Guangdong, where mild political reforms can be regarded as a potential challenge to the Party, in Chongqing, through 'regression of the Party'⁹, the state makes an effort to legitimize current regime and the Party.

However, I would like to emphasize the fact, that current political turmoil surrounding fall of Bo Xilai as well as recent character of the reforms, it is impossible to decisively conclude which particularities in regard to nature of the state can be attributed to

⁹ Party officials are required to visit countryside and engage frequently with local population

individualities of Bo and Huang and which embody fundamental characteristics of the Party and the state.

Analysis

The uniqueness of Chongqing rapid growth lies in its ability to restructure public assets and use their profits for public benefit. Even though it is difficult to assess sustainability of public financing through land appreciation, current method of refinancing state represent a distinctive form which emerged in the process of experimentation and hybridization. In particular, land appreciation strategy has been inspired by experience in development of Shanghai Pudong, where Huang Qifan held a post of Deputy Head of the district (Huang 2011). Moreover, some authors argue that the reform builds on idea of Sun Yat-Sen who believed that 'appreciation in value of land should belong to the public' (Sun in Huang 2011:587). Similarly, economist J. Meade emphasized that private and public sectors can coexist and even be complementary (Cui 2011:654). However as determination of origins of inspirations for Chongqing institutional architecture is not an objective of my research, I will not provide any insight into the debate. This is not to discredit significance of institutional architecture of Chongqing model, but to emphasize the fact, that it is a result of 'self-learning and adaptation.' The crucial thing is that Huang Qifan himself, addressed financing of public projects through profits of state-owned assets as 'third finance' and hence recognized its exceptionality in current Chinese conditions (Huang in Huang 2011:586).

By reviewing restructuring process in Chongqing, I aimed to emphasize not only its originality, but also excessive involvement of the state in the economy. We can observe that the state is active in all spheres of socio-economic life and thus present a dominant institutional form, influencing the rest of institutional structure. The local state exceeds its conventional roles of supporting and promoting development by regulating state-market relations, enforcing laws and collecting taxes. The government enters into contractual relations with private sectors by establishing joint ventures in land and property markets (Wang 2003). This interconnection of private sector, banks, SOEs and government increases viability of projects, in which SOEs are guaranteed social provisions for workers (e.g. housing), banks provide

finance while officials ensure transfer of land use rights and issue of permits (ibid).

Low insertion into world economy is not based only on Chongqing geographical location, but is also influenced by its industrial structure organized around heavy industry and natural resources. Transformed production strategy, in case of HP and Foxconn, shows that it accommodated to nature of the economy and orients mostly to domestic markets. Heterogeneity in the wage-labour nexus caused by heterogeneity of forms of ownership will become more visible with increasing number of FIEs relocating to the area. As for now strong position of SOEs means that the workers are more protected from the market, including their representation by trade unions. However, this creates another form of social polarization, on top of rural-urban divide. As trade unions have historically stronger positions in SOEs than in private domestic or foreign companies.

Lastly, existence of two sources of finance- land appreciation and profits from SOEs, both in the hand of the state, proves that the state is a pervasive institutional form governing the rest of the economy. Complementarity of state ownership as part of forms of competition, which takes advantage of easy access to credit and land, in order to finance public services, thus, strengthens coherence of the system.

4.4 Linking theories to the cases

This section is to serve as an account for another variation of RT, namely Jessop's SRA. My objective is to investigate if Jessop's theory provides us with sufficient alternative explanation of differences in economic models of Guangdong and Chongqing. Firstly, I will focus on certain elements of his theory, namely his understanding of structure, role of actors and importance of concept of strategies. In this part I will build on theoretical background presented in Chapter 3. Subsequently, I will enquire if his analytical tools can be helpful in addressing my research problem. Lastly, I will apply SRA method in analysis of institutional changes introduced in previous parts.

a) Approaching the case study theoretically

As mentioned earlier, Jessop understands institutional change as a *result* of permanent interaction between reflexively reorganized structure and recursively-selected strategies carried by actors (Jessop 2001). Structure, in general, is capable of selecting specific strategies, which are being pursued by actors. In addition, this process of interaction leads to stability of given structure. It is this coherence that allows us to even consider specific structure and its dynamics. Jessop correctly argues that structures are not neutral, as they favor certain strategies, identities and actors. However, he does not elaborate under which conditions such selectivity of structures takes place. Importantly, Jessop's further analysis on structural change builds on his understanding of structures. Here, however, we can observe his another limitation. He emphasizes structure mainly as constraining, i.e. restricting actors in their behavior (Jessop 1990: 260). Such definition allows him to move further in his explanation how structure selects specific strategy, which either reproduces the system or leads to its change (ibid.). As he argues it is not some intrinsic characteristics of the structure which influences its decision to favor a certain strategy, but it is *relation* between the structure and strategies that different forces adopt towards them (ibid.). Selectivity is, therefore, relative to specific interest in specific time and related to specific groups. Regarding strategies, Jessop argues they cannot be reduce to goals and ideas but need to be analyzed in relation to their organization, forces and groups (Jessop 1990). In order to be successfully implemented (i.e. selected by the structure) they need to adjust to structural constraints (ibid.). For Jessop, structural change takes place through selectivity, which is dependent on reflexivity, i.e. perception, interpretation and choice of actors. And most importantly, he characterizes it as a result of such interaction.

On the other hand, PRS approaches institutional change from a different angle when it argues that change is a *process* of transformation of fundamental social relations codified in the institutions (Villevall 2002). Coherence that characterizes structure should not be taken for granted as it emerges in process of learning (ibid.). It is exactly the regularities, that PRS focuses on, that makes certain structure durable and gives us opportunity to analyze its reproduction and/or transformation (Coriat 2002). In addition, Joseph points out a need to

go beyond Jessop's understanding of actors as mere bearers of structures who either contribute to its reproduction or its transformation, but as actors with ability to engage with structure (Joseph 1998).

b) Scrutiny of analytical tools

Secondly, even though Jessop derives from critical realism, his theory does not allow us to move from abstract to real and from concrete to concrete in thoughts. Not only he does not provide us with analytical tools for proceeding from abstract to concrete (Joseph 2006:422), but also his conceptualization at the level of abstract is insufficient. In these terms, PRS proves to be more useful theoretical framework, as it operates at all levels. Through concepts of hierarchy and complementarity we can identify dominant institutional form-insertion of the state into economy and not only theorize its consequences on other institutional forms, but also observe its concrete manifestation at the level of real. Moreover, if not aware of limitation of Jessop's theorization, one can slip into simplistic causal explanation of structural changes resulting from interaction between reflexive structures and recursive agents. Even though in Jessop's view some relations, structures and strategies are more important than others, he does not provide us with analytical tools, nor explanation of generative mechanism of where this dominance emanates from, how it is manifested and how it impacts other actors, strategies or organization in given structure.

In contrast, as demonstrated earlier, the concept of hierarchy, which corresponds with Jessop's idea, is based on intrinsic characteristic of an institution with ability to impose its logic on the other institutions. This hierarchy derives from evolutionary organization of the structure and is always analyzed in relation to other forms. In addition, in contrast with Jessop who emphasizes mainly constraining role of the structure, PRS use concept of complementarity and hierarchy in order to account for contingencies, constraints *and opportunities*, which either obstruct or facilitate behavior of actors (Helderman 2007).

In order to comprehend analysis of two models using SRA as theoretical framework, we need to examine Jessop's understanding of

MOR. He argues that an object of regulation pre-exist regulation and is constituted in and through it (Jessop 1990) In other words, he agrees that there is materiality in the structure which allows MOR to predate struggle (or PRS terminology- institutional compromise) and which enables it to reproduce through selection of strategies. However, in his further analysis he puts more emphasis on how actors *perceive* and interpret these material conditions, rather than its nature per se. Furthermore, PRS is clearer in explanation of unstable character of MOR, as instability of capitalist system represents its inherent characteristics. By analyzing mutual relations between institutional forms, we can detect reasons why certain institutional architecture (MOR) is unable to maintain its current form and is more inclined to redefinition of its structure. Therefore, for Jessop two models differ only in relations to actors in given economic systems, which we can analyze through scrutiny of their interpretation and renegotiation of the rules of the game. Different actors adopted different strategies, which despite of the struggle were selected in given environments leading to implementation of different policies and thus resulting into emergence of two models. In Guangdong liberal faction's strategy of opening the economy to private and foreign businesses was favored by the economic system and through establishment of SEZs, liberalization of markets, economic system transformed itself into its current version. Similarly, recent development in terms of minor political reforms means that the structure shifted its preference from working class to middle class and their political desires. In addition, Guangdong's process of experimentation and hybridization related to expansion of SEZs would be disregarded and argued in similar terms.

c) Implications for empirical study

Jessop's concept of strategies can be beneficial in analyzing how local government officials became more inclined towards support of TVEs and SOEs in the early stages of the reform process. Nomenclatura system based on evaluations and accompanied by uncertainty and insufficient information represented constraining environment while fiscal decentralization and other reforms enabled officials to undertake their own initiatives and become less dependent on the center. In adopting diverse policies, officials took into consideration specificities of given environment (province, town...) and their own interests. As for

Jessop institutions are result of reflexive actors and recursive structure, institutional designs of local models (Guangdong and Chongqing among them) could be contemplated and adopted ex ante, during the process of struggle. The same way, we can look into Huang Qifan personal initiative in persuading Foxconn and HP to establish their production in Chongqing. It can be argued that structural change, transformation of production organization, was result of Huang adopting specific strategy (in line with his personal interests) and thanks to his proximity to decision-makers, his strategy was accepted and led to transformation of the structure.

However, in case of Guangdong, SRA is unable to capture complexity of the relations between disintegration of production structure and flexible, polarized labour market complemented by emergence of new forms of ownership. Retreat of the state from social sphere is more than just strategy adopted by certain forces (the Party) in order to pursue their own interest, but a reaction to multi-layered processes analyzed through practices in given structure. Emergence and development of each organization production, sectors and wage-labour relations need to be understand in co-evolutionary terms, i.e. in relations to other forces, such as trade unions, corporate governance, organization of production between network of contract manufacturers with various forms of ownership and engaging through different competition strategies. By analysis of practices at the level of firms, production structures, wage determination etc. PRS is able to examine micro-level of economic system and through institutional forms connect it to macro-level of MOR and ROA.

Lastly, based on the abovementioned analysis of different conceptualization of structural change, I will apply Jessop's theory to the issues of state insertion into economy, which I identified as a dominant institutional form in both models. By using Jessop's strategic selectivity, we are unable to comprehend why Guangdong province opened housing market for private sector in 2012 and not earlier, or why it decided to engage with private businesses at all. The structure, Guangdong state, has been shaped by its previous experience with successful and unsuccessful strategies of both public investment corporations previously participating in the construction of social housing, as well as private investors. It might be that the strategy of private sector became dominant recently, due to its better relations

with the state. However, when taking into consideration broader context of tendencies of Guangdong state, which has been historically more open to private investment and through processes of trials-and-errors (in fact its biggest Investment corporation was bankrupted in 1999) adopted its structures in order to accommodate this new actors. On the other hand, process of hybridization in case of Chongqing public financing (inspired by Pudong) but adjusted to local conditions of abundance of rural land in alliance with long experience of public sector, justifies Chongqing propensity to favor public companies in financing and construction of social housing.

Conclusion

Even though Jessop provides us with the concept of strategies, which can be useful in analyzing how institutional change takes place, his analytical tools do not allow us to apply his theory in satisfactory manner. Following his interpretation, we are unable to move beyond agential explanation of differences in two models, leaving us with mere scrutiny of actors' strategies and struggle in their implementation. In addition, his ontology is unable to capture how dominance of particular institutional form (in my case insertion of the state into economy) emerges and expresses itself. As dynamics of institutional change is understood only through behavior and discursiveness of actors, Jessop is unable to explain change in material conditions, such as change of nature of production organization, wage indexation, domestic or export-oriented capital, supply and demand, which present core of analysis for PRS as they lead us to understand change in relations between institutions and how an organization of these relations constitute particular institutional architecture. PRS with its analytical tools, which allow us to deconstruct given structure into institutional forms and its sub-elements, gives us opportunity to interrogate their inherent characteristics, practices as well as behavior of actors vis-à-vis these structures. Even though both Jessop and PRS emphasize importance of mutual interrelations among institutional parts, Jessop does not unpack the structure. On the contrary, he takes it as an entity or ensemble of relations and looks at its interaction with actors and strategies they adopt. In this sense, he is unable to analytically decouple the two, and therefore does not resolve the problem of complexity of social structures, which are reproduced through human practices, but have emergent properties as well (Joseph 1998).

Table 1: Comparison of institutional forms in both models

	Guangdong	Chongqing	National
MOR	Market-led, open	Domestically-oriented	Moderately open and investment-led
Leading institutional form	State-economy nexus (passive) Insertion into world economy	State-economy nexus (active) Insertion into national economy	Leading role of the state
Complementary forms	Heterogeneity of ownership forms and wage-labour nexus	State-led competition, state-led social policies	Accommodating monetary policy
ROA	Move to intensive and export oriented	Extensive and inward-looking	Mix of export-led and inward looking
Performance	High productivity increase Slowing growth	High growth/above national	Slowing growth Unbalanced growth Unbalanced regional productivity growth
Nature of crisis	Underconsumption Investment-led growth	Intrinsic limitations of extensive ROA	Over-accumulation combined with household underconsumption

Source: Author

Chapter 5

Reflections

The purpose of this paper was to challenge a notion of 'Chinese characteristics' also embodied in the concept of China model. By applying Régulation Theory, I aimed to demonstrate that in order to comprehend what constitutes Chinese economic system, we need to unpack institutional architectures and scrutinize relations between their particular institutional forms. In order to question adequacy of notion of China model, I disaggregated the country into its subnational units, which led me to comparative analysis of two economic subsystems- Guangdong and Chongqing. Departure point of my research was interrogation of current literature with focus on authors' explanation of transformation and current form of Chinese economic system. I demonstrated that a problem with lack of agreement on what constitutes Chinese economic structure stems from authors' miscomprehension of neoliberalism. In addition to market-state dichotomy presented in the literature, I detected another divide related existence of various models within China. As I pointed out the authors provide us with theoretically and analytically insufficient explanations, with emphasis on more or less voluntaristic reasoning, in which actions of individuals, Party officials, are enabled by decentralization and nomenclatura system, which encourages officials to undertake experiments in prospects of their career promotions.

After analyzing different conceptualizations of neoliberalism in the context of present literature, I provided my own explanation of existence of different economic models within China. By applying PRS and SRA to cases of economic systems of Guangdong and Chongqing I questioned how their presence challenges the notion of 'Chinese characteristics'. This leaves me with several reflections on specific issues I will elaborate further on.

On nature of the Guangdong state

Guangdong model is organized around low insertion of the state into economy and high insertion of the economy into international

system. In practice it means that policies and institutional arrangements are subordinated to the needs of global market with the state withdrawing from different spheres of socio-economic life. The state itself leaves space for the market, inclines more towards private sector and comforts to the requests of the market. In addition, passive involvement of the state has been manifested in its retreat from provision of social services leading into liberalization and commodification of spheres, which previously used to be organized through state, e.g. housing. In its effort to maintain stability and coherence of the system, the state adopts to the changes in the composition of its society. Currently, it tries to navigate between emerging middle class and still strong working class. In relation to its industrial structure, the state took advantage of the economic slowdown in order to promote shift towards intensive regime of accumulation.

On nature of the Chongqing state

Similarly to Guangdong, in Chongqing economic system, insertion of the state into the economy represents a dominant institutional form. However, when understood as continuum, this insertion can be seen as more active. As emphasized presence of the state is visible throughout the whole process of economic restructuring, in which the state commanded reformulation of industrial and financial organization of the economy. Chongqing state moves beyond its role as a coordinator and facilitator of the market, but it acts as its dynamic component. In addition, the state organizes the economic system with its institutional forms in the way it can benefit from their activities, as in case of financial institutions or state-owned assets (including enterprises and land).

Nature of the state as a dominant institutional form induced specific relations between other IFs in the models. Active involvement of Chongqing state in the economy directly contributed to transformation of production strategies of private companies (HP and Foxconn) in order to encourage economic growth. In addition, it organizes social policies and public services so the system maintains its coherence by avoiding social conflicts. Preference of the state towards state-owned and domestic enterprises governs organization of economic structure. Put differently, economy is organized around domestic consumption (and demand). Therefore, it is in interests of the

state to encourage increase of household income. In order to achieve this objective, state uses provision of social services and other policies aiming to narrow down urban-rural divide; expansion of urban residence permits and construction of affordable housing. These complementary policies are supposed to increase certainty, spur consumption and thus transform economy from investment-led to consumption-led.

On diversity of ownership structure

I argued that heterogeneity of ownership structure leads to transformation of labour market and wage-labour nexus in particular. In Guangdong, change of ownership structures itself resulted from the process of opening-up of the economy and restructuralization and privatization of state-owned assets. Labour market reacted to establishment of new ownership forms, and in the process of its polarization and commercialization transformed into more accommodating, i.e. serving the needs of the economic system. Modification of the wage-labour nexus was accompanied by increasing wage disparities, low labour protection and individualized worker resistance.

In case of Chongqing, diversity of ownership structure has had different dynamics, mainly due to slower opening-up process. However, current restructuring of the economy resulting into strengthening of the position of SOEs, but also establishing of FIEs in the municipality, already brings changes in organization of the labour discussed in subsequent part.

On wage-labor nexus

In case of Guangdong, we can see that wage-labor relations accommodate to the needs of the market. The government reluctance towards adoption and supervision of workers' rights and still weak position of trade unions manifest the state's subordination to the market forces. Current specific form of wage-labor nexus, characterized by polarized labor market, stagnant minimum wage leading into exploitation of the workers (mainly in manufacturing), increasing wage of middle class; relates to changing ownership structures. In the context of various ownership structures, specificities of wage-labour nexus are *complementary* to existing forms of competition. In other words, fragmentation of labour market and diversity of ownership reinforce

existence of contract manufacturers, which take advantage of insufficient implementation of labour protection laws and low wages. Competition in the province is based on lowering production costs disregarding innovation and better production methods. Weak position of the trade unions leads to individual resistance of workers who rarely find support in the state. This is in contrast with Chongqing, where the active involvement of the state reflects on organization of capital-labor relations as well. The state involvement in the taxi strike serves as an example. In addition, the fact that SOEs maintained strong position in the Chongqing economy extends to better organization of trade unions, which tend to be stronger in state sector.

On Jessop's conceptualization

In relation to Jessop's understanding of structural change in China, Chongqing and Guangdong in particular, I emphasize the fact that even though Jessop offers the concept of strategies, which could be useful in analysis of involvement of different actors, namely Party officials; we are unable to analytically assess their roles in the system due to unsatisfactory theorization of his approach. By focusing on interaction of the actors with the given structure, we are unable to analytically and theoretically substantiate how a particular economic system favors a specific strategy. We cannot locate where the strategy (e.g. Guangdong's preference towards private sector) originate, nor we can adequately explain how and why the actors decided for specific strategy (e.g. enter housing sector). We can only observe that it is tendential, and thus depends on specific temporal and spatial configurations. This is not to say that I argue for deterministic explanation of evolution of both models. On the contrary, adopting PRS I illustrated that even though both economic systems possess certain tendencies, which are influenced by historical, cultural and geographical conditions; these are activated in different times by institutional forms interacting with each others and constituting specific institutional organization in which it is *their relations* which give the structure its characteristics which then can be observe.

On hierarchy and complementarity

The concepts of hierarchy and complementarity helped me to comprehend that institutional forms did not *emerge* at the same time nor *carry* the same weight, an idea that cannot be conceptualized

through Jessop's SRA. Therefore, through adopting the concepts I was able to explain how institutional forms evolved over time into their current shapes and how modification of one influences the configuration of the whole. In addition, I argued that both economic models are dominated by insertion of the state into economy in combination with insertion of the state into either world economy (Guangdong) or domestic/national economy (in case of Chongqing).

On 'Chinese characteristics'

Distinctive institutional architectures in both Chongqing and Guangdong are results of historical tendencies of each geography, together with specific organization of institutional forms within each model. Differences between the models lie in diverse organization of its institutional forms. However, it is not the configuration of each institution separately, that makes the model exceptional, but it is relations between their institutional forms which result in their individuality. Therefore, I conclude that addressing Chinese economic system as either China model or even more simplistically neoliberalism with 'Chinese characteristics' is misleading. The unique configuration of relations between institutional forms within Chinese subunits shows that, in this case, it is more accurate to conceive the systems with regard to 'Chongqing characteristics' and 'Guangdong characteristics'.

Appendices

Appendix 1: Misrepresentation

Misrepresentation of certain elements of Chinese economic system in the literature relates to first of all, intense *mobility between political and economic elites*. Authors use various terminologies for describing phenomenon of cooptation of early entrepreneurs into Chinese Communist Party- bureaucratic entrepreneurs (Gore 1998), nomenclatura capitalism (Breslin 2006), politicized capitalism (Nee and Swedberg 2007) or simply as reference to guanxi (Breslin 2004). Guanxi (关系) refers to personalized networks of social relationships in business, representing essential part of social capital (ibid: 22) All analyses derive from increasing involvement of state actors in functioning of businesses through regulatory frameworks and mainly through personal involvement and “privatization with Chinese characteristics” (Dickson 2000). Even though an advantage of such approach is its attention to actors who are situated within existing practices, norms and institutional arrangements, it is their behavior and actions, which inform particular form of economic system, as understood by D. Harvey. They have ability to reconfigure previous as well as current economic system merely through their behavior and mutual relations. Interconnection of political and economic spheres is, however, regarded as a negative characteristic, or even as disequilibrium creating space for interventionism and resulting into hybrid order (Nee and Swedberg 2007). Their simplistic vision of economic system, characterized by either equilibrium or disequilibrium, extends into assumptions that improvement will be achieved once institutions are set correctly, i.e. personal connections are limited via proper legal system. Authors’ call for separation between state and markets is common for such prescriptive approach.

A second limitation on the analysis is tendency to depict cooptation of Chinese political and economic elites as a constraining element. On the other hand, some studies emphasize its facilitation role. Close relations between two groups enable emergence of specific institutional arrangements in different localities following decentralization process. Since beginning of the reforms, provinces gradually gained greater autonomy in terms of allocation of resources; fiscal responsibilities and attraction of investments Interactions

between these actors create specific local configurations with their own dynamics and interests. *Local state corporatism* with its consequences of constant competition among provinces became main driving force of Chinese economic growth (Boyer 2010). Mode of accumulation based on ideas, rules and regulations that stir the economy include intense networking of elites between political and economic sphere, hukou system determining labour-wage nexus forms and mainly, varieties of local configurations (ibid). Boyer's analysis provides valuable insight into how methodological chaos and inadequate conclusions can be avoided if specificities of the economic system are taken into consideration and are carefully examined. As the author recognizes importance of increased competition among local and provincial governments, local state corporatism presents crucial variable in his analysis.

Even though these elements represent fundamental features of Chinese economic system, they are subject of chronic negligence in present literature.

Appendix 2: Further elaboration on Guangdong province

2.1 Historical overview of the reforms

Guangdong economic growth has been dependent on presence of special economic zones since the beginning of the reform. However, in its first phase, SEZs were only designed for production for export, and FDI flowing into the province was strictly controlled. After Deng's Southern Tour in 1992 (marking second stage of the reform) Guangdong started to relax control over FDI and ownership. Due to increasing competition many original SOEs went bankrupt leaving dominant position to foreign-invested enterprises (FIEs). Gradually, Guangdong became a magnet for migrant workers who account for 20 millions of population of 110 million. Large pool of labour force affected the wage-labour nexus by expanding its diversity. Besides labour mobility, the presence of FIEs contributed to wage reforms. Firms were given freedom in setting wages, negotiating employment contracts and formulating job requirements (Zhang 2006).

2.2 Recent plans for economic upgrading

Spatial aspect of the industrial restructuring includes reallocation of low-value added manufacturing (e.g. garments, toys, plastic flowers) to the western part of the province (ibid). In addition, such regional industrial restructuring relates to nature of inequality typical of Guangdong. Biased development policies, which solely focused on Pearl River Delta region caused vast economic and social inequalities within provincial borders. Currently the region produces 80% of Guangdong GDP while comprising of 35% of its population (WB 2011). Consequently, the spatial industrial reforms aim, first of all, to decrease these intra-provincial disparities, and secondly to achieve the goal of industrial upgrading. This nature of disparities in Guangdong differs from Chongqing, which is predominantly characterized by urban-rural inequalities.

2.3 Happy Guangdong initiative

An objective of the initiative is to promote more self-governing society through political opening of society, greater transparency and

new approach towards social conflict, e.g. encouraging trade unions to more actively participate in collective bargaining. In general, it is presumed that administrative reform will lead to small and effective state, which is contrasted with a large and strong society (Gore 2012). The overall emphasis is put on narrowing the income and inter-regional gaps, however, this is done through market. As argued by Gore, this initiative proves typical orientation of Guangdong model- political opening combined with social development (ibid).

Appendix 3: Elaboration of Chongqing model

3.1 Historical background

Chongqing used to be a part of Sichuan province until 1997 when its administrative status changed to a municipality. This transformation needs to be understood in broader context of changes in the region. First of all, Chongqing has always played important role in Chinese history, as it served as a wartime capital in the 40s. Later on, its industrial structure was influenced by economic restructuring of newly proclaimed Peoples Republic of China, which encompassed withdrawal of industries from coastal regions into inland provinces. Mountainous landscape and abundance of natural resources contributed to development of heavy, defense-related industries (Wang 2003). In spite of being part of Sichuan province, Chongqing enjoyed fiscal and decision-making independence throughout most of the Maoist Era.

The central plan of Western Development Strategy included construction of Three Gorge Dam, the biggest hydraulic project in the world, which spreads over more than half of Chongqing territory (Lammie 2009). Chongqing was appointed to be a center of migration of 1 million people reallocated in the realization process, and thus easing pressure on already overpopulated Sichuan (Hong 2004).

3.2 Hukou and housing reform

The hukou reform was introduced after the city was granted a permission to become experimental zone for new urban-rural integration by central government (together with Chengdu). Together with housing policies the reform is complementary to urbanization as a main objective of Chongqing Master Plan 1996-2020 (Stratfor 2012). Consequently, urbanization is considered a tool for narrowing urban-rural inequalities (Huang 2011). Expansion of urban status will decrease insecurity of rural migrants and their entitlements to social service will increase level of consumption (Goldman Sachs 2011).

Chongqing government initiated construction of subsidized public housing, which is to serve lower class. By 2011 \$15 billion was spend in building of 13 million square meters with plans to build additional 40 million square meters accommodating 2 million people

(Lu 2012). Moreover, housing is allocated based on income (with threshold of 2000 RMB/month) regardless residence status of applicants (Goldman Sachs 2011:28)

3.3 Big Eight

They have sector specific responsibilities with separate management and financial accounts, however under direct supervision of the government (World Bank 2010: 28). Therefore, in general, they can be treated as municipal SOEs (ibid: 19). In fact, their reform was initiated by Huang Qifan, the mayor, who was inspired by financial institution during his work in Shanghai.

However, as the institutions can exploit various tax and fee exemptions, and can be awarded land use rights and transfer of existing assets in order to boost their revenues (ibid:30) there are numerous problems with their transparency.

3.4 Character of the state

In regard to wide-spread discussion of nature of Chongqing economic system, some authors address it as Socialism 3.0, thus, reflecting on active engagement of the state in the economy as well as its idea of equitable society (Chongqing pioneers...2010). Chongqing, mainly its former leader Bo, was simplistically presented as “singing red, striking black” on one hand symbolizing Bo’s inclination towards Maoist past, revival of sympathy towards the Party, on the other Bo’s rigorous position towards crime, mostly underground networks.

In addition, the model is accompanied by ideological framing, such as “sharing prosperity” or “equally dividing a cake”, which aim to promote equal distribution of wealth and narrowing down rural-urban divide (Gore 2012)

3.5 Brief comparison of social composition of two localities

Differences in social composition of two regions translate into divergent emphasis on social policies. While Guangdong, characterized

by high intra-provincial disparities, tries to reduce imbalances among its localities (through geographical restructuring of the industries), Chongqing undertook elimination of rural-urban inequalities for its priority, tackled through urbanization.

Furthermore, strong presence of middle class in Guangdong results in a strong awareness of their rights and more mature social institutions (Wang 2012). Even though both areas regard social stability and coherence to be the most important precondition for economic growth, their operating tools alter. Chongqing government decided to tackle roots of potential sources of social instability-inequality. People's livelihood remains in the center of Western China economic development and contributes to promotion of domestic demand and subsequent change of mode of development ('Chongqing quanweihui...' 2010). Profound concern with social problems was also translated into expression 'red GDP' used by Ji Shuo Ming, a journalist formulating the term 'Chongqing model', which captures people-oriented nature of the economic growth (Ji in Feng 2010). For example, Chongqing's spending of 4% of its GDP on education surpasses other provinces (ibid.).

In contrast with Guangdong innovations in social administration (such as Internet consultation, certain democratization of election, easing of criteria for NGOs etc.), Chongqing government is more in favor of direct involvement in social matters requiring active participation of police forces (ibid). However, willingness of both governments to use brute methods of maintaining stability, i.e. police and armed forces, cannot be neglected. As pointed out by Professor Xiao Guangdong officials prefer traditional methods of maintaining stability, *'for the sake of their own performance assessment'* (Xiao in Wang 2012).

In addition, differences between the models encompass issue of political and historical legitimacy of the Party and ideology of the state as such. While Chongqing contributes to legitimization of the Party, not only through Red Campaign, but also through ideological foundations of 'dividing the cake equally' and 'regression of the Party' through Party officials' rotation system requiring them to spend certain amount in rural areas; Guangdong's ideological struggle can be seen as a challenge to traditional Party position. (Zhang 2011).

Appendix 4: Popular explanations of two models

In accordance to Edin (2010) economic growth can be associated, even personified in particular officials, decisions and policies and as such serves as a source of legitimacy of individual politicians, extending to the Party and the state.

Regarding decentralization, it resulted into relative autonomy of this group operating in environment of 'organized anarchy' (Heberer 2012). In fact, local officials are given only general instruction for new policy, which they interpret and adopt in various ways given their own abilities, provincial specificities as well as their own goals (ibid). Interestingly, based on research by Xu (2011) an organization of current incentive system carries similarities to imperial structural architecture. Moreover, he maps out the history of local experiments since 1978, which created incentives to outperform the others as officials have been given sufficient autonomy to initiate and conduct trials in their localities.

The "elites" take advantage of local policy processes in order to pursue their own interests. Nomenclature system in this case represents systemic logic or design. Even though the local state corporatism resembled East Asian developmental states, its original embedded autonomy was replaced by the predatory nature of the local states, in which decisions became more affected by informal personal ties with economic elites (Ong 2012)

Appendix 5: Régulation theory

Studies of capital accumulation applying RT are studies of economic dynamics, its evolution given particular time horizons. Its various approaches vary in focus on different sectors as well as levels of regulations (Jessop 1990). Schools differ also in regard to unit of analysis, in which some current studies moved beyond nation state and undertake regional blocs as object of their research. In addition, some authors inquire about international system of accumulation arguing for global economy to have its own economic logic and not just a mere aggregate of national economies (ibid.).

Regarding its common ontology and epistemology, the theory argues the reality of socio-economic systems can be known and it provides us with analytical tools, concrete institutional forms, which allows us to disaggregate and understand the reality at the level of specific configurations for any given era or geography (Boyer 2002) with objective to reflect on real world in its complexity.

Institutional relations disclosed through MOR support existence of particular ROA in the economy. As régulationists abandoned their earlier dichotomic understanding of ROA by emphasizing heterogeneity of the regimes, MOR serves as a core variable through which we are able to discover ROA. Additionally, both change of ROA and MOR are possible, however change of the regime requires change in the mode, whilst minor crisis, in MOR, does not have to results into alternation of the regime.

Appendix 6: Parisian *régulation* school

The first one was characterized by extensive ROA, which entails expansion of capitalism into new markets and spheres of economic activities without modifying production processes and labour efficiency (Juillard 2002). On the other hand, intensive regime of accumulation, which is associated with Post-Fordism, significantly altered production processes leading to rise of labour productivity. While in the first regime, increase in the capital accumulation was based on physical expansion of technology, assembly lines etc., accumulation in intensive regime is derived from increasing output per worker as result of technological change and investment into research among the other changes.

In comparison with other theories, which argue for existence of different types of capitalism, namely VOC literature, PRS offers inductive and historically more specific analysis of economic systems. It rejects dichotomic division of capitalism- either liberal or coordinated, as argued by VOC. By acknowledging existence of numerous capitalisms, it advances into analyzing their mutual relations. Moreover, PRS is less normative, as it refrains from benchmarking, typical of VOC, which assesses functionality of alternative forms of capitalism against their European and American counterparts. Regarding structural change, VOC in accordance with neoclassical economic theory accounts only for external shocks causing crisis and consequent change of economic system. On the other hand, PRS, given its marxist tradition, focuses on endogenous changes within MOR. Most importantly, VOC understands diversities in capitalism in terms of countries late adjustment, gradual progress or ineffective reforms (Boyer 2002). As outlined in previous part, PRS regards alternatives in capitalist economies as result of historical and spatial distinctions, social relations, organization of actors and their actions influenced by complex networks, rules and norms.

In contrast with mainstream economic thinking, PRS argues that agents cannot fully perceive reality; they can comprehend it partially through analysis of institutions and reality that governs MOR. Detailed analysis of MOR allows us to uncover ROA, as ROA is seen as long-term economic processes observed ex-post (Boyer 2003).

Finally, PRS takes into consideration importance of politics in embeddedness of the economy into broader socio-political context of the country. The state itself participates in accumulation regime by managing relations between public and private finances. Close relation between them can influence political regulations that would privilege private loans for covering public deficit. Institutional change cannot be separated from processes affecting political arena (Boyer 2003). The state works within mode of regulation as well as on the mode meaning, that it can externally and internally affect institutional architecture (Theret 2002).

Appendix 7- Details on reform process at national level

Uniqueness of Chinese SEZs dwelled in their role of laboratories for specific economic policies (e.g. Shenzhen in Guangdong pioneered flexible wage system and land and equity markets). They were also provided with greater autonomy in terms of decision-making and revenues. In addition, they served as widows to the world, learning and engaging with new technology and managerial structures. SEZs were not designed only for foreign enterprises, but they attracted domestic capital as well. In fact, Chinese domestic firms enjoy benefits of administrative flexibility, lower tax rates and easier access to world markets (Naughton 2007: 407-408). However, as SEZs did not bring expected results at the beginning, it was not until 80s, and mainly after Deng's Southern Tour in 1992, when they were given appraisal and third wave of SEZs construction started. Chongqing economic and technological development zone was built a year after.

In relation to factions existing within the Party and recent power transition, I emphasize that Former Party Secretary of Chongqing, Bo Xilai belongs to princeling faction, together with Xi Jinping who is expected to replace President Hu Jintao in his position. On the other hand, current President Hu and Premier Wen held posts in the League. Li Keqiang, who held top leadership position in the League is expected to replace Premier Wen.

Table 2: Two phase reform process in China

	I. Phase 1978-1992	II. Phase 1993-present
Wage-labour nexus	<ul style="list-style-type: none"> - Labour mobility allowed - Monopolistic- dominance of publicly owned enterprises and principle of iron rice bowl persisted - Collective bargaining - Sharp growth of wage and productivity 	<ul style="list-style-type: none"> - Segmentation of labour market related to coexistence of FIEs, SOEs and TVEs - Unequal income distribution - Rapid increase in inequality - Underconsumption - Slow rise in wages, increase in productivity
Role of the state	<ul style="list-style-type: none"> - Active in regulation and accumulation - Leading reform process - Active in fiscal and monetary policies (maintaining high savings and investments) 	<ul style="list-style-type: none"> - Privatization - Recentralization in order to regain regulatory and macroeconomic managerial functions - Macroeconomic stability through conservatism
Forms of competition	<ul style="list-style-type: none"> - Dual track strategy - Reduction of state monopoly - Oligopoly - Competition by entry - No privatization (only managerial reforms) 	<ul style="list-style-type: none"> - United dual track strategy - Market unification - Downsizing of SOEs, entrance of MNCs - Small and medium- size firms - Creating regulatory and administrative rules for competition
Monetary regime	<ul style="list-style-type: none"> - Inflationary economy - Balance between high household savings and decreasing government savings through banking sector - Absence of capital market 	<ul style="list-style-type: none"> - Price stability - Monetary policy based on domestic needs - Capital market reform announced in 2012
Insertion into world economy	<ul style="list-style-type: none"> - Strictly through Special Economic Zones - Regulated FDI 	<ul style="list-style-type: none"> - Expansion of SEZs - Open economy, accession to WTO - Capital account convertibility - Devaluation of currency - Expansion of FDI, but still limited to export sectors
ROA	<ul style="list-style-type: none"> - Extensive accumulation based on mass production - Outward and inward oriented strategies 	<ul style="list-style-type: none"> - Development of intensive accumulation - Persistence of both outward and inward-oriented strategies
Sectors	<ul style="list-style-type: none"> - Agriculture and industry; rural areas 	<ul style="list-style-type: none"> - Finance and regulation; urban areas
Framing and public discourse	<ul style="list-style-type: none"> - 'Doesn't matter if the cat is black or white as long as it catches mice' - Reform without losers 	<ul style="list-style-type: none"> - 'Getting rich is glorious' - Reform with losers

Source: Based on Naughton 2007

Appendix 8- Further analysis of Guangdong model

8.1 Findings by Liu et al.

In the study of FIEs in China, Liu proved that the presence of FIEs in the system led to:

- New forms of competition for domestic companies in terms of higher wages and return to human capital
- Elimination of sectoral and geographic segmentation in hiring leading to unification of labour market
- Adoption of more flexible and market-oriented labour recruitment practices (e.g. they disregarded hukou system in hiring)
- Their remuneration scheme became basis of new performance-based wage system, which was reformulated into its current state- post-and-skill wage system, comprising of two parts- flexible (based on performance and rank) and more stable (skill-related).

In Guangdong province in particular, FIEs are characterized by heterogeneity in wage compensation and promotion of geographical integration. Wholly owned FIEs bring greater return to human capital than non-wholly owned¹⁰. Moreover, greater proportion of their workers comes from outside of the province. Interestingly, the more export-oriented a firm is, the lower hourly wage adopts, and employs the higher proportion of outside-province migrant workers. Finally, origins and size of firms reflect on wages as well (Liu et al. 2006).

8.2 Wintelism

Wintelism refers to a specific form of organization of production, characterized by appropriation of profits through formulation and control over international standards (Borras 1997). As Wintelism relates mainly to electronics sector, which is prevalent in Guangdong

¹⁰ Non-wholly owned enterprises include joint ventures and cooperative ventures.

industrial structure, it presents an important force in transformation of provincial industrial specialization. Flexibility of firms belonging to such organization, translate into short-term strategies and low level of investment as their objective is to exploit low production costs.

8.3 Housing reform

Retreat of the state from provision of social services reflects transformation of state's relations and practices towards wage-earning class. Disruption of iron rice bowl concept resulted into necessity of reforms in new areas, such as housing provision. Until 1980s housing was provided and allocated through working units (dangwei). Gradual liberalization of labour market, including migration and hiring, was accompanied by commodification of housing. Firstly, through transformation of ownership when tenants were encouraged to buy out their apartments; later, through changes in housing provision, consumption, allocation up to reforms in housing allowances, mortgages and creation of housing market. Guangdong province (mainly Shenzhen) presented a laboratory of these efforts. Nevertheless, in the 90s housing became unaffordable and new schemes had to be developed. Although the province initiated construction of affordable housing, this was designed only for employees of certain work units and enterprises favoured by the government (Chiu 1999). In Gaungzhou, provincial capital, new policies of housing allocation system were examined. Housing allowances in cash replaced typical direct housing provision, in order to give citizens greater freedom (and responsibility) (Wong 1999). Similarly, this reform was limited to civil servants only, disregarding majority of the population. In accordance with national regulations, Guangdong established financing vehicles, which acted as investment corporations able to borrow on financial markets. The purpose of these institutions is to finance public services and infrastructure projects. However, after Guangdong International Trust and Investment Corporation was unable to pay its debts and was forced to bankruptcy in 1999, this method of financing started to be largely contested due to lack of transparency, corporate governance and potential source of instability. Nowadays government housing projects are financed directly from provincial or local budgets in cooperation with private investors. Recently, the government released new regulations to encourage private enterprises

to enter up-to-now state monopolized sectors of infrastructure and housing construction, public services, social programs and financial services ('Guangdong launches private' 2012).

8.4 Underconsumption

Even though real wages have been rising in the past years, underconsumption is caused by instability of work, high proportion of migrant workers who cannot access services due to rigidity of hukou system and the fact that their wages serve as remittances sent outside the province.

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