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# Soaring Dragon, Stumbling Bear

## China's Rise in a Comparative Context

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### Summary points

- In a historic reversal of fortunes, China is overtaking the territory of the former Soviet Union in GDP per capita.
- China's rapid economic development has been driven by 'regionally decentralized authoritarianism' (RDA). But only the economy is decentralized. Political centralization, the objectives and patronage of the centre, and the centre's relative performance evaluation are essential elements of the model.
- China's model of rapid economic development is best understood in a comparative context, but it is important to get the comparison right. It has been said that China's advantage over the Soviet Union was that it carried out economic reforms while postponing political reforms. In reality, this is not true. The Soviet Union made reforms similar to China's, but without the same success.
- China's success so far owes much to its unique circumstances: the great opportunities of initial poverty, exceptional economic size, and the commitment of its leaders, supported by long-standing traditions of RDA.
- In future, sustained economic development requires continuous policy reform. While China's existing model has encouraged this in the past, it is likely that obstacles will accumulate in the years ahead.
- Current risks to the continuation of China's economic modernization include two traps: complacency and conflict. These risks may become increasingly difficult to manage without strengthening the rule of law and enforcing governmental accountability.

## Introduction

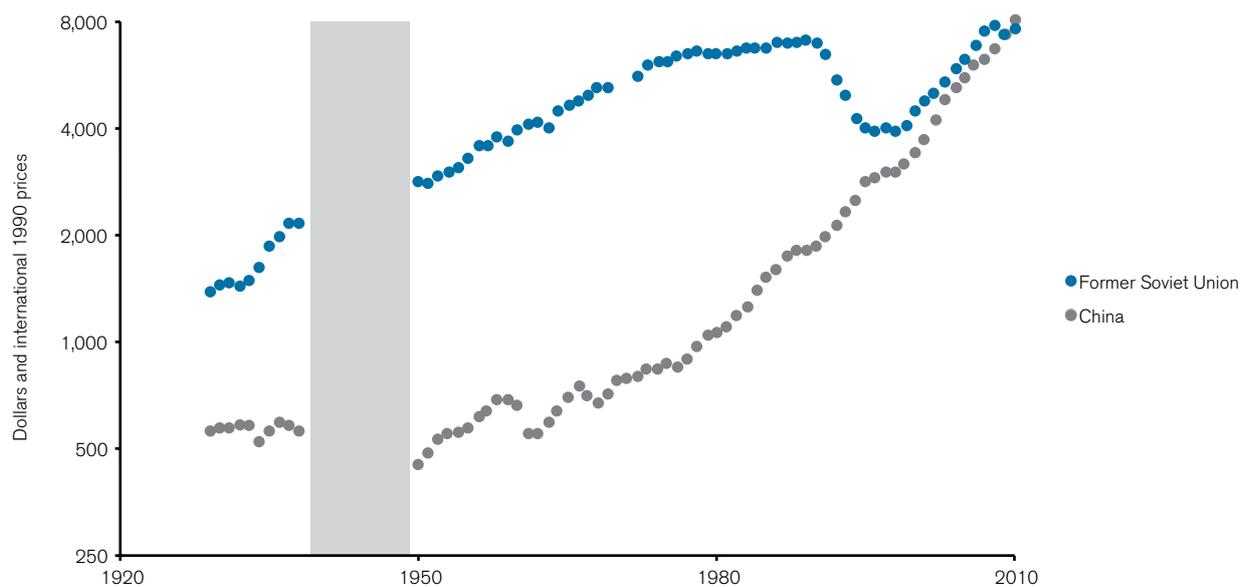
We are currently witnessing a historic reversal. For the first time in centuries, the real income of the average Chinese citizen is overtaking and, on some authoritative measures, has already exceeded that of those now living in the former Soviet Union. Soviet rulers from Joseph Stalin to Nikita Khrushchev to Leonid Brezhnev could once afford to patronize, and even despise, their Chinese comrades. In past times China respectfully saluted the Soviet Union as the 'elder brother' to be emulated. As late as in 1989, on a visit to China to mark the normalization of Sino-Soviet relations, the Soviet leader, Mikhail Gorbachev, was celebrated as a hero for his reforms, viewed as more far-ranging

than those in China. But times have changed. Today, the Soviet Union no longer exists and China is the emerging power in the East.

This is not how it was supposed to be. Through the 1970s one of the superpowers of the 21st century was widely expected to be the Soviet Union. But as Figure 1 shows, while Chinese economic expansion accelerated, Soviet growth slowed markedly and then stagnated. By 1991, the Soviet economy and the state had collapsed altogether. Two decades later, the former Soviet region has barely regained the anaemic trend line of the 1970s.

China's stock has risen most obviously in the West, where the major economies are burdened by recession

Figure 1: GDP per capita – former Soviet Union/Russia and China, 1929–38 and 1950–2010



Source: The Maddison Project at <http://www.ggdc.net/maddison/>, described by Bolt and van Zanden (2013).

### Notes:

- 1 Real income comparisons are properly made at purchasing power parity (PPP), for which there are various standards. The Maddison Project historical database shows China's moment as 2010. Recent revisions to China's cost of living by the International Comparison Program at [http://siteresources.worldbank.org/ICPEXT/Resources/ICP\\_2011.html](http://siteresources.worldbank.org/ICPEXT/Resources/ICP_2011.html) would put the reversal off by a few years, but these revisions continue to be debated. When GDP per capita of the two regions is compared using own-country prices and nominal exchange rates, China remains far behind; but this is not relevant for purposes of real-income comparisons, which should be based on PPPs.
2. 'Former Soviet Union' refers to the territory of the Soviet Union within post-war borders; for the years since 1991 this includes not only Russia but all the independent states that were formed on its territory. Russia itself remained richer than China by a small margin (less than 10%), but the former Soviet territory included large populations that were now substantially poorer than China, from Ukraine to Central Asia.
3. The shaded area covers the years from 1939 to 1949, for which China has no data.

and debt. Public discussion of the role of China's economy in today's world is both predictive and normative. The IMF now expects China to become the world's largest economy before the end of the decade.<sup>1</sup> *When China Rules the World* is the forward-looking title of a recent book by China watcher Martin Jacques (2009).

China's success is all the more impressive in the context of the global relationship between economic growth and policy reform. To break out of relative poverty and catch up with the world technological leader, an economy must undergo continuous policy and institutional reforms. When a country is some distance from the technological frontier, its growth is aided by institutions that implement technologies developed elsewhere. At very low levels of development, such as China's in the 1970s, large gains may be realized simply by allowing workers to move from agriculture to factories and towns, working with established technologies (Sachs and Woo 1994). As the economy begins to close the gap with the global technological frontier, however, the emphasis must shift gradually away from implementation to autonomous innovation, which can be fostered by opening product markets to more stringent competition and, for example, raising the quality of education (Aghion and Howitt 2006). Successive general-purpose technologies impose different institutional requirements, and institutions need to adapt continuously to the outward movement of the global technological frontier. In turn, this process continually disrupts established interests, throwing up the risk that at some point they may succeed in halting the reform process, causing economic growth to falter (Crafts and Magnani, 2013).

Continuous policy reform is fragile. The main reason is that, as the economy undergoes successive phases of modernization, policy reform at each stage must infringe upon the vested interests formed in the previous period. Where continuous reform becomes blocked (as in Italy, for example), the economy will lag and fall behind. The Chinese economy has demonstrated a capacity for

continuously overcoming such blocks, and this capacity has paved the way for the country's spectacular rise.

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Those who recommend China to others as a model of successful development (Bell 2012; Bell and Li 2012; Li 2011, 2012, 2013) attribute its success to three key features:

- *Meritocratic selection.* China's leaders are selected on competence and promoted on performance rather than chosen for their transient popularity, campaign funding, or special-interest appeal. Supposedly, this frees them from the short-term considerations that characterize competitively elected governments and allows them to make decisions that look beyond any electoral cycle.
- *Successful autocracy.* In recent years the world's major democracies have been gridlocked over fiscal consolidation and the management of public debt, as well as other contentious issues, ranging from immigration to climate change. Adaptations

<sup>1</sup> IMF Data Mapper at <http://www.imf.org/external/datamapper/index.php>.

are required with increasing urgency but these pluralistic political systems have failed to produce decisions on who should bear the costs. Apparently, China's more autocratic system has been able to resolve such conflicts and override private resistance in the public interest.

- *State-directed long-term investments.* While China's state-owned enterprises now account for (just) less than half of the economy, the government continues to frame private-sector growth by controlling bank credit and by directing, funding and implementing long-term projects to build infrastructural and educational facilities. Planning decisions can respond to the public interest and are not unduly skewed by short-term electoral considerations or private interests.

Each of these features has some validity, and in order to explain China's rise it is not necessarily wrong to start with the obvious. However, today's China watchers sometimes seek to go further, suggesting these features can easily be copied by other countries. This paper demonstrates that this view is oversimplified as some of the critical drivers of China's rise are country-specific, and it goes on to illustrate the likely limits to China's continued success in future.

A comparison of China's reforms with those pursued in the Soviet Union under communist rule is particularly revealing. It is commonly thought that China succeeded where Russia failed because China pursued better policies. This paper will show that the policies were much the same. The differences can be traced in the histories of the two countries to institutions and traditions that could not be easily replicated.

## How has China succeeded?

China began the 20th century as one of the world's poorest countries. Decades of foreign and civil wars cost tens of millions of lives and further impoverished the survivors. Following their victory in 1949, China's communist leaders imposed Soviet-style collectivization of agriculture and central planning. In 1958 Chairman

Mao Zedong went further, leading China into a Great Leap Forward (1958) and a Cultural Revolution (1966). Waves of political mobilization ensued and a major famine seized the population. As Figure 1 indicates, when Chairman Mao died in 1976 average incomes had made only modest progress over the level achieved before the Great Leap Forward. Indeed, at the time, Soviet incomes were more than seven times the level found in China. However, in the 1980s, China's new leaders embarked on reforms. Growth picked up rapidly, and the acceleration persisted for more than three decades. The result was the astonishing uptick, highlighted in the latter years shown in Figure 1.

### China's regionally decentralized authoritarianism (RDA)

Studies of China's post-Mao economic institutions have converged on the idea that the key to China's rapid growth is its 'M-form' (multi-divisional) organization, or RDA. According to Qian and Xu (1993) and Maskin et al. (2000), the Chinese provincial structure is akin to the M-form organization of a firm (Chandler 1962; Williamson 1975). The unitary (U-form) firm is organized into specialized non-competing functional units (manufacturing, sales, etc.) that complement each other; management performance can be measured only at the level of the firm as a whole. The M-form firm is organized into self-contained competing divisions (e.g. brands), each comprising complementary functions; management performance can be measured at the divisional level. In this context the important thing that happened in China was the decentralization of control over fiscal and economic resources at the provincial level, so that the Chinese state became an M-form hierarchy with its provinces operating as competing divisions.

Economically the Chinese state is regionally decentralized, but it remains politically authoritarian with centralized control of party and government appointments – hence the delicate terminological balance of 'regionally decentralized authoritarianism' (Xu 2011 provides a survey). In such an environment there is a relatively closed internal political labour market for bureaucrats who wish to move up within the system. The party centre

has used its control of appointments to select and promote personnel on the basis of merit, measured by their relative success in managing the provincial economy. Local officials have become managers of competing provincial divisions of the Chinese economy. They have been given high-powered promotion incentives to achieve provincial targets, such as GDP growth and revenue collection; they have also been given sweeping discretionary powers to achieve these objectives.

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By this means, it is thought RDA developed China’s institutional capacity for innovation as provinces competed to make innovative reforms. Thus a surprising feature of RDA is that it complemented or promoted the rise of a private sector, which became China’s primary engine of growth. In 2005, for the first time, China’s private sector exceeded the state sector by value of output. Indeed, it has proved consistently more innovative than the country’s state-owned enterprises and – except in the case of state monopolies – more profitable (World Bank 2012). RDA also encouraged inter-provincial rivalry for infrastructure projects and foreign direct investment (FDI). The result was China’s long economic boom.

It is natural to consider China’s success against the dismal counterpoint of Soviet economic decline and collapse. The standard narrative of the Soviet Union’s fall emphasizes the country’s abandonment of authoritarian single-party rule. President Gorbachev was an ‘idiot’, the word used by Deng Xiaoping (Vogel 2011), because he attempted political reform before economic reform. By first dismantling the levers of totalitarian control, he caused the Soviet Union’s state capacity to crumble. With it he lost the power to control the course of gradual economic reforms (Popov 2000). Instead, the people knocked down the Berlin Wall and the Soviet bloc fell apart. As some observers have put it, the Communist Party imploded (Ellman and Kontorovich 1998), while insiders ‘stole the state’ (Solnick 1998). With its state capacity profoundly undermined, Russia then faced a decade of political anarchy and economic misfortune.

China presents an obvious contrast (Lynch 2012). In 1978 Deng Xiaoping, the Chinese leader, pointed the way to the ‘four modernizations’, namely agriculture, industry, science and defence. In 1989, unlike President Gorbachev, he blocked demands for a ‘fifth modernization’ (democracy), thereby preserving the Communist Party’s monopoly as well as China’s state capacity.

#### China's RDA: empirical challenges

The idea of RDA as the source of Chinese economic growth, while logically consistent, has been challenged or qualified on the empirical grounds that China’s regional decentralization has been oversold and that its meritocratic competition is a myth.

Cai and Treisman (2006) argue that political centralization was essential to China’s growth. They base this on three observations. First, contrary to the stereotype, China’s administration was partially re-centralized in the 1990s. At the same time, economic growth accelerated, partly driven by large-scale privatization of small and medium-sized state enterprises. Second, they argue that, contrary to some expectations, fiscal decentralization did not lead to harsher budget constraints on state enterprises or improve the bad debts of the state

banking sector; if anything, the opposite was the case.<sup>2</sup> Third, while decentralized experimentation with private enterprise in the provinces played an important role in boosting economic performance, these experiments acquired greater significance only when sanctioned, sponsored or even directed by central leaders. The centre<sup>3</sup> also appointed new leaders to some provinces, tasked with introducing specific reforms in those parts of the country.

Xu (2012) and Chen and Kung (2011) have argued that the outcomes of RDA depend crucially on political direction from the centre. What targets does it set for the provincial leaders? With inappropriate targets, they point out, RDA can be a mechanism for a race to the bottom, ending in disaster. Overzealous provincial bureaucrats, eager to demonstrate loyalty to central government, initiated the suppression of private farming in the 1950s, with farmers corralled into producer cooperatives and then people's communes. In the Great Leap Forward of 1958, the central government confronted regional leaders with high-powered survival and promotion incentives to fulfil quotas for food to be extracted and delivered to the centre at all costs. At that time, RDA contributed directly to a demographic catastrophe – the famine of the period – costing tens of millions of lives.

More recently, Shih et al. (2012) have used a large-scale biographical database of high-ranking Chinese leaders to conclude that faction-based patronage networks, princely status and education have been more important determinants of leadership promotion than provincial economic growth. If promotion was related to any economic indicator, it was provincial revenue collection (which was growth-promoting only to the extent that it supported provincial public goods). According to this interpretation, China's meritocratic competition is a myth; dominant factions have used their control of promotion to channel private goods, not to deliver broadly based economic growth.

These critiques offer valuable correctives to an oversimplified interpretation of the sources of China's economic dynamism, but that does not mean RDA is not a key to its success. First, as Xu (2012) has emphasized, political centralization is a necessary condition for economic decentralization to do its work. It is political centralization that enforces provincial rivalry. The centre has to be strong enough to discipline and reward regional leaders through promotion or demotion, a point made first by Blanchard and Shleifer (2001). RDA is a unique combination of political centralization with economic decentralization, in which the importance of the former has been too often neglected.

‘China's meritocracy is not a myth, but it is certainly not a pure meritocracy; there is an essential political context. Thus performance and patronage may not be independent factors in promotion, but performance is still a factor’

Second, China's meritocracy is not a myth, but it is certainly not a pure meritocracy; there is an essential political context. Thus performance and patronage may not be independent factors in promotion, but performance is still a factor. Using her own dataset, Jia (2012) has shown that growth and connections are complementary in determining promotions. While promotion of provincial leaders is associated separately with provincial growth and personal connections, the effect of growth that is conditional on connections is both larger and statistically more significant.

<sup>2</sup> Huang (2012) argues that China experienced a re-centralization of banking in the 1990s that steered credit away from the countryside into the public sector and urban government projects.

<sup>3</sup> In this paper 'the centre' is used to refer to the central political leadership institutions of China's one-party state: the party Politburo, the governing State Council, and their Standing Committees, which have interlocking membership.

Third, and most importantly, as Chen and Kung (2011) and Xu (2012) have argued, China's RDA worked only when the centralized autocracy gave it the task of promoting production. RDA came into existence in China in 1958 when the authorities turned away from Soviet-style centralization. But for its first two decades, the system was either unproductive or actually destructive. While some negative consequences may have been unintended, there is little evidence that the Maoist leadership found them to be a source of regret. On the contrary, Mao and his subordinates persisted for decades in policies of class struggle and mobilization. It is only in the post-Mao era, when Deng Xiaoping gave China's political elite the tasks of the 'four modernizations', that RDA was harnessed to promote economic growth.

### Why did reforms fail in the Soviet Union?

China's rise has been convincingly ascribed to RDA. By inference, it might be tempting to ascribe the collapse of the Soviet economy to its failure to adopt a similar system, but this would be to overlook two key facts.

The first is perhaps obvious but underappreciated. How do China's political institutions today genuinely differ from those of the old Soviet Union? Far less than would appear at first sight. Many of the problems associated with RDA in post-Mao China (based on Xu 2012 and Brandt et al. 2013; Ledeneva 2008 offers a specific comparison) are highly reminiscent of the Soviet Union

of the post-Stalin era, including corruption and abuses of power. In both settings, access to resources depends on patronage and connections more than on property rights. Administration trumps the rule of law; the courts answer to the government, not the other way round. Party rule also eclipses the rule of law because party officials are brought to court only when the party has withdrawn its protection after investigation and expulsion. Most importantly, government officials are upward-facing; their selection and promotion depend on pleasing superiors, not voters. Ingratiating themselves with superiors depends on the pursuit of easily measurable production targets. Meanwhile, the welfare benefit to ordinary people as citizens or consumers is a by-product.

The second fact is less well known: regionally decentralized authoritarianism was actually tried (1957–65) in the Soviet Union – and failed. In reality, in the course of its existence, the Soviet Union attempted every single reform measure that the Chinese pursued – a point made long ago by Sachs and Woo (1994), and then forgotten. Likewise, it is often forgotten that the first models of Chinese economic reform in the 1980s were based on reform precedents in the Soviet Union and other East European communist countries.

Table 1 lists the key reforms of the Chinese economy and shows that each had a Soviet counterpart. This included several experiments with a household responsibility system in agriculture (the so-called *zveno*); a

Table 1: Economic reforms in the Soviet Union and China

	Soviet Union	China
First five-year plan, destruction of private industry	1929–32	1952–56
Farm collectivization	1929–30	1954–55
Policy-induced famines	1932–34, 1946–47	1958–62
Farm decollectivization (the <i>zveno</i> , household responsibility system)	1939, 1947, 1966	1981 onwards
Regionally decentralized authoritarianism (RDA)	1957–65	1958 onwards
Dual-track public-sector pricing	1987	1981
Cooperative/township-village enterprises	1988	1978

Sources: Standard English-language authorities on Soviet economic institutions and reforms include Conquest (1967, 1968); Nove (1977); Davies (1994); and Hanson (2003); for China see Naughton (2007).

trial of regional decentralization; and several rounds of public-sector reform, culminating in new laws to reduce compulsory obligations on state-owned enterprises, allowing them to supply the market directly at higher prices and to permit private enterprise to enter the market.

It is widely thought that the Soviet regime under Gorbachev could have opted for gradual economic reforms under strict political control, but that he wasted his chances (for a restatement see Lynch 2012). In reality, the historical record shows otherwise. Over a period of many years, while authoritarian one-party rule was completely intact, the Soviet leaders did try all of the reforms that the Chinese communists pursued in the attempt to revitalize their economy. The difference between the two countries lies not in their reform efforts but in the reform outcomes: whatever was tried in China worked, whereas when the same reforms were applied in the Soviet Union they failed.

‘Under communist rule each East European country had considerable freedom to experiment with national economic models, and each national economy resembled a Chinese province in size and degree of self-containment more closely than a Soviet province.’

The key point, therefore, is that a rash turn to democracy is not the factor that decided why communism failed in the Soviet Union. By 1989 Soviet communism had already failed, but it had not yet collapsed. Gorbachev's choice was between continuing to preside over a stagnant and unreformed version of communism and letting go of the levers of authoritarian power (Harrison 2002). It was in that context that, ultimately, perhaps without fully

intending it, and certainly without fully predicting the consequences, Gorbachev let go. As a result, Soviet state capacity collapsed. Since Soviet business relied entirely on centralized institutions for direction and enforcement, it was the collapse of institutions, and not particular economic policies (labelled as ‘shock therapy’), that framed Russia's economic disasters of the 1990s (Popov 2000).

Interestingly, the failures of communist economic reform in the Soviet Union throw light on the reasons for its success in China, in terms both of design and of commitment. With respect to design, Markevich and Zhuravskaya (2011) focus on the failure of RDA in the Soviet Union. They show that in this period, Soviet provincial leaders, like their Chinese counterparts, were subjected to relative performance evaluation. As a result, the output growth of more diversified regions was slightly elevated and that of others somewhat depressed, with an aggregate effect near zero. The Soviet version of RDA, therefore, was effective without being productive.

Markevich and Zhuravskaya (2011) contrast China's 31 provinces, with average populations of over 20 million in 1964, with the Soviet Union's 105 regional authorities, averaging less than two million each. China's provinces were much larger, more diversified and more self-contained. In fact, according to Huang (2003), the result of provincial decentralization was ‘one country, thirty-one economies’, each relatively self-contained, and often more closely integrated into the world market than the national one. The self-containment of competing provinces was an important condition for the success of China's M-form rivalry. In the Soviet Union there was too much interdependence. Narrative evidence (Nove 1977) illustrates that when each province depended on neighbours for supplies and markets beyond a certain point, provincial leaders actively sought to improve relative performance by damaging their neighbours – for example, by denying supplies. Markevich and Zhuravskaya show econometrically that the more self-contained regions prospered at the expense of the more specialized ones.

The failure of regional rivalry across the post-war Soviet Union raises the question why it was not more productive

across Eastern Europe at a national level. Under communist rule each East European country had considerable freedom to experiment with national economic models, and each national economy resembled a Chinese province in size and degree of self-containment more closely than a Soviet province (Harrison 2013). The most likely reasons for East European failure were the insufficient political centralization of allied, but still nominally independent, nation-states; the greater job security and tenure of each national communist leader; the greater toleration of poor economic performance compared with political deviation; and the fact that a more successful national economy could not attract labour or capital across closed international borders.

From this perspective the cause of failed economic reforms in the Soviet Union could appear to be due to poor design, or even just bad luck, but further investigation points to more deep-seated reasons. The defects of regional decentralization when it was introduced in 1957 could have been fixed easily by grouping the 105 Soviet provinces into larger economic regions. There was ample precedent for this in the practice of Soviet regional economists and statisticians. And there was a move towards consolidation in November 1962, when the 105 provinces were reduced to 47. But this was just a prelude to rolling back the entire reform experiment, which had proved almost uniquely divisive. In the framework of Blanchard and Shleifer (2001), central government could not commit not to confiscate gains from local growth, while local agents believed they would gain more from killing private enterprise and innovation than from fostering it. In fact, no Soviet reform project was ever allowed to survive its teething problems as there was too little political will to engage in continuous policy reform. On the contrary, each reform initiative was unveiled as a one-off measure that would 'perfect' the socialist economic mechanism, but it would then be quickly abandoned at the first signs of resistance from vested bureaucratic interests.

An underlying difference between China and the Soviet Union lies in their pre-revolutionary history. Both countries have long traditions of political centralization and even absolutism (Pipes 1974; Fukuyama 2011; Ma 2012). In China the

institutional origins of modern regional decentralization can be traced back to the Qing dynasty of 1644–1911 (Xu 2011; Ma 2012; Brandt et al. 2013). In contrast, the Russian state lacked the most basic decentralized structures until the 19th century (Starr 1972; Nafziger 2011). The task of the provincial governor was to maintain order and farm taxes; economic performance was unimportant. Selection was haphazard or based on patronage or even just casual acquaintance (Mosse 1984). The first structures of local government, the *zemstva*, were a hopeful innovation of the 1850s that began to take on significant functions only towards the end of the 19th century. The Soviet regime energetically built local party-state institutions, but their prime function, as before, was to assure regime stability.

RDA failed in the Soviet Union and Eastern Europe because the communist nation-states were too small or (in the case of the only country of sufficient size, the supra-national Soviet Union) lacked any tradition of regional decentralization. It also failed because Soviet national and provincial leaders lacked beliefs that were consistent with growth-promoting decentralization.

By contrast, RDA succeeded in China, where it was supported by tradition and where very substantial gains were achieved from a very low starting point. But it succeeded only after national leaders became willing to set their provincial subordinates targets that would have a positive impact on both growth and welfare, and could credibly reward their success without confiscating the gains. Another key factor was that the Chinese economy was large enough to comprise many large, self-contained provinces that were able to compete productively without causing a significant adverse spill-over on neighbours. It relied on a politically centralized dictatorship that was strong enough to select and promote its personnel at will. In the Soviet Union, however, it was certainly no longer an option after reformist leaders had relinquished the levers of state capacity. But, even prior to such reforms, RDA was not an option for more long-standing, fundamental reasons.

### Is China's RDA model universal?

China's RDA has turned out to be a successful growth-promoting mechanism, but only under certain conditions.

These conditions were unique to China; some are historically rooted; others are contingent or accidental; and all appear to be key ingredients for success.

In China RDA has been used to support many goals. Economic growth is only the most recent objective. RDA can be, and has been, put to other uses, some of which have been acutely destructive – for example, military and political mobilization, and repression.

RDA was never a realistic option for the Soviet Union. It could work in the interests of economic growth only if applied over a large population organized into competing provinces that were unspecialized and relatively self-sufficient. The Soviet Union was large enough, but lacked historical and political preconditions, while other countries in Central and Eastern Europe were too small or did not come together to form a political unit.

For the same reason China's RDA may not present a model for other emerging economies. China has a population of 1.3 billion. India, with 1.2 billion people, may be the only other country in the world of sufficient size to sustain RDA, but it is a multi-party democracy where politicians face their constituents, not an autocracy centralized in Delhi. The next largest countries, Indonesia and Brazil, have populations that are no more than one-third of the population of China in the 1960s, let alone today. It seems unlikely that RDA could work there. For dozens of smaller emerging economies of Asia, Africa and Latin America it is out of the question.

If an important lesson can be drawn from China's success under RDA, it is that the country's specific history and size are key. Under different conditions RDA may not work and may not even be necessary. Consider the much smaller economies of South Korea and Taiwan. Both have a similar Confucian cultural tradition. In both countries political authoritarianism may have enhanced economic development after the Second World War by preserving political stability, but their trajectories were distinct. In South Korea, the government guided economic development under the influence of the Japanese model, whereas in Taiwan small and medium-sized enterprises drove economic growth from below. More importantly, after two decades

of high-speed growth under political authoritarianism, both countries made a rapid and peaceful transition to democracy. Hong Kong offers an even sharper contrast, having grown rapidly from the 1950s with a high degree of civil liberty and market freedoms under British colonial administration.

A similar divergence of development paths is visible in Central and Eastern Europe. The 1990s saw a collapse of state capacity across Russia, to the detriment of tens of millions of people who depended on the state for employment and social protection. For more tens of millions living on both sides of former Soviet frontiers, in contrast, the same collapse was an opportunity for national self-determination. While not all used this opportunity productively, an arc of nation-states from the Baltics through to Central Europe and the Balkans pursued democracy and a market economy. Today these countries enjoy more political and civil liberties and much higher living standards than China.

In essence, therefore, RDA is as much a product of China's unique history and size as it is a model. If democratization has not been a sufficient condition for post-communist economies to prosper, neither has authoritarianism. Worse still, the distorted politics and economics arising from authoritarian rule are likely to carry major risks for the continuation of policy reform.

### Chinese reforms: what are the risks?

China has succeeded where the Soviet Union failed. RDA has allowed competition among China's provincial leaders to harness the private sector to the objectives of national economic modernization. This rivalry has been strong enough to break resistance to continuous policy reform, and the promotion of market activity has led to big improvements in average living standards. China's modernization has thus proceeded without universal market freedoms, the enforcement of third-party property rights, or the subjection of leaders to the rule of law. Linked to this pattern of reform and modernization are genuine risks that deserve urgent attention, and these could undermine China's success in future as the country develops towards middle-income status.

### Lack of government accountability

In the recent past, changes in the economic well-being of China's population have tended to track measured GDP. But, while GDP measures market output, social welfare and market output are only imperfectly correlated. Some downsides may be of growing significance. Along with a heavy emphasis on boosting measured output have come greater income inequality, excessive spending on military projects and urban infrastructure (and a squeeze on consumption to fund them), abuses of power and rising social discontent (Xu 2012), while RDA has also promoted rising unmeasured externalities, such as pollution (Jia 2012). Xu (2012) emphasizes that these issues are increasingly difficult to resolve within RDA. Institutional changes are required that would force provincial leaders to turn their attention away from the centre and towards their constituents.

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RDA hinges on linking powerful incentives to an easily measurable performance indicator such as GDP. If changes in popular welfare then fall short of measured GDP change in some respects, it is not a solution for the centre just to set additional indicators. If it were simply to expand the set of targets for provincial bosses, a number of problems would be likely to arise. Indicators that at first sight offer a more direct link to welfare, such as environmental measures or calculations

of inequality, would generally be more open to both controversy and manipulation. Increasing the number of such targets would also increase the complexity of public management. Linking multiple indicators to promotions would incentivize bureaucrats to divert resources into cheating, gaming or other unanticipated trade-offs – as the Soviet-era experience confirms. Down this road lies the possibility of still more serious distortions and even a race to the bottom.

In short, the Chinese economy, lacking representation from below, will run into increasing difficulties in future. Meanwhile, the ‘authoritarian’ component of RDA will continue to hinder the normal growth of a healthy civil society, including representation from the ground up.

### Losing the momentum of policy reform

In the past, China has often been spurred on to further innovative reforms as a result of external difficulties. Indeed, reforms took place in the 1980s when China emerged as one of the poorest countries in the world, and then in the 1990s after the fall of the Berlin Wall brought the legitimacy of communism into question. The external pressure was enough to send an ageing – indeed dying – Deng Xiaoping on his ‘southern tour’ of 1992, while the Communist Party leadership came up with bold privatization initiatives to win back legitimacy. Precisely because China was still so poor, reforms were eased by the spectacular gains that were quickly realized and could be widely shared – an advantage that Soviet reformers lacked.

Continuous policy reform is essential to modern economic growth. China's RDA so far has provided a mechanism for continuous policy reform, but it is inherently fragile. Economic development continually shapes and reshapes potential coalitions of incumbent interests that would gain from blunting competition. Whenever such coalitions emerge that have the potential to block continued reform, China's oligarchy will have to be willing to intervene on the side of change, not stability.

As the country moves towards middle-income status the question is whether its leaders will cease to pursue reforms in the national interest and acquiesce to the

private interests of bureaucratic or corporate incumbents. If they do, China's economic modernization will come to a halt. This could happen in two ways, which can be characterized as the complacency trap and the conflict trap. Now that China is no longer one of the poorest nations in the world, Beijing could become complacent and prefer political stability over continued economic modernization. Alternatively, now that China is a rising power, Beijing could be diverted into nation-building by other means, namely through conflict.

In the complacency trap, as China approaches middle-income status, its incumbent rulers might become satisfied with their success and prefer not to put it at risk by engaging in further reforms. This clearly happened in the Soviet Union under Brezhnev, and it was reflected in a marked slowdown in the turnover of the elite (Bialer 1980). China's elite has benefited greatly from the privileges of rank and party membership, including access to corrupt income sources. Reform usually produces some losers, whether it is driven by authoritarian or democratic considerations, and as China becomes richer there will be more to lose.

In the conflict trap, governments on the edge of democratic transition can be diverted into nation-building through foreign adventures (Mansfield and Snyder 2005). In the past, international events and external trends have challenged China's leaders to think productively about economic modernization. However, this is not necessarily the only possible outcome. The Chinese system is not just a model for civilian economic development. Among the 'four modernizations', military interests have enjoyed status equal to those of agriculture, industry and science. Increasingly, Chinese leaders have responded to mounting domestic discontent by ratcheting up nationalist propaganda based on perceived national humiliation suffered at the hands of foreigners. These tactics can be useful to enhance the political legitimacy of the Chinese government, but they also increase the risks of external confrontation, with destabilizing consequences when it comes to China's diplomatic influence and its economic cooperation with neighbouring states (Luttwak 2012). The same tactics have also suppressed debate about China's long-term interests in the international arena.

## Conclusions

RDA has carried China's 1.3 billion people from grinding poverty towards middle-income status. Specific – perhaps unique – circumstances were required for this to occur. Among these were China's exceptional size and the long history of RDA itself. For RDA to be productive, the centre's role is vital. In China, the centre maintained control over provincial personnel, selected provincial growth as a performance indicator, and consistently supported the continuity of policy reform.

‘The chances that China's model could succeed elsewhere, particularly in the smaller emerging economies of Asia and Africa, are even more remote. The only feature of the Chinese experience that such countries are likely to be able to copy is authoritarianism’

Chinese citizens, on average, are becoming wealthier than the average resident in the territory of the former Soviet Union. This can be ascribed equally to China's success and the failure of the Soviet bloc. The Soviet collapse has been stereotyped as a failure to copy China. This paper, however, has argued that the Chinese 'model' is not exportable to countries that lack similar conditions. The Soviet state lacked a tradition of RDA and the commitment to persist with policy reform in the face of teething problems. The chances that China's model could succeed elsewhere, particularly in the smaller emerging economies of Asia and Africa, are even more remote. The only feature of the Chinese experience that such countries are likely to be able to copy is authoritarianism.

China is not yet a rich country when compared with the West, and its system of RDA still has some mileage to go. However, signs of economic, social and political

strain are appearing and are likely to grow, and this paper has identified a number of risks. Indeed, a risk factor intrinsic to RDA is China's lack of government accountability, which can widen the wedge between economic growth and welfare enhancement. Specific risks range from complacency to nationalism. For China's leaders economic growth remains a means to several ends, not least nation-building, military power and dominance over its neighbours.

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