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Faculty of Economics and Political Science Political Science Department Masters Program



"The Developmental Role of the State in China between Change and Continuity"

A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Political Science

Presented by Shorouk Ali Elzayat

Supervisor

Dr./Gaber Awad/

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Bache



APPROVEL SHEET

The Role of the State in China between Change and Continuity

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B.A. Economic and Political Science, Cairo University, 2005

A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Arts

In Political Science

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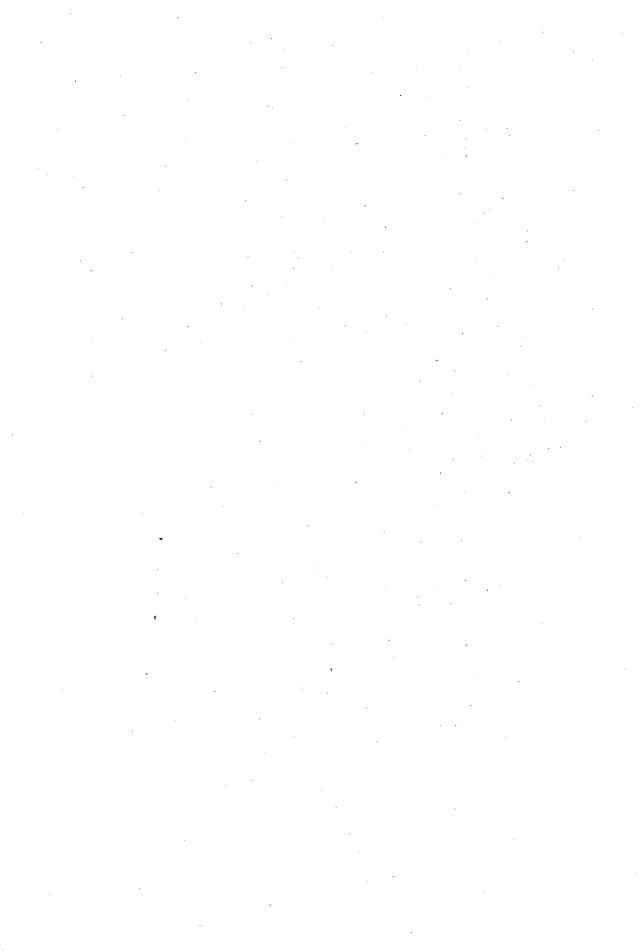
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الايجازة

اجازت لجنة المناقشة هذة الرسالة للحصول علي درجة الماجستير في يناير ٢٠١١ بتقدير حسير كي الرسالة للحصول علي درجة الماجستير في يناير ٢٠١١ بتقدير حسير كي بتاريخ ماريخ المتطلبات،

اللجنة

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Title of thesis: The Developmental Role of the State in China between

Change and Continuity

Conclusion

This increased complexity and freedom have resulted in the problem of social control and stability because of the decline of the traditional control mechanisms, the limitation of political freedom and supervision, and the lack of an effective legal

control system during this transition period.

The consequences of the changing state-society relations are critical to the future development of China. With regard to the impact of these changes, it is possible that some kinds of social disorder problems will continue to exist in the Chinese society in the near future. It is unlikely that we will see changes overnight in the Chinese state as those that occurred in former socialist countries in Eastern Europe and what was the USSR. The key issue lies in the role of the Communist Party.

It is important for the Party to arrange and develop some kinds of mechanisms to resolve conflicts between different faction groups, between the central and the local governments, between the coastal and the interior regions, as well as between the new rich class and the poor people. It is also necessary for the Party to gradually adjust its role in the society and to distinguish its functions and activities from those of the

government.

If China is to achieve its goal of building a "harmonious society," it must look beyond short-term economic growth and see the long-term threats—both economic and political—that result from inequality. China's economic reforms have created both winners and losers. This outcome brings with it a political imperative to maintain social stability and a moral imperative to help those who have been left behind. The best way to achieve this is to make greater efforts to monitor the localities and re-

centralize aspects of the fiscal system.

The Chinese economy - testimony of many experts - is the fastest growing economy in the world during the last fifteen-years and it will reach the level of the U.S. economy by the year 2020. Different economic policies were implemented in China starting from 1978 (the reform era of President Deng) till now (President Hu era). These policies reflected the economical perspectives of the Chinese leaders and made a great effect on the role of the state in China on the Chinese economic development. The reform process in China went through three major stages i.e., the four modernizations stage, the three represents stage, and finally the policies of the harmonious society after reaching the market saturation point. Additionally, the economic reforms have taken account of raising the living standards of the Chinese people. It is not expected to keep pace with those economic reforms and political openness. Political reforms and the adoption of a democratic approach to the Western model and are expected to continue.

The development of the Chinese economy faced several social problems and uncertainties such as the Asian crisis and its consequence, the lower economic growth in 1998 than 1997, the growing unemployment problem that resulted from (state-owned enterprises SOEs) and delaying the government plans. Also, the economic reform process added uncertainties to the Chinese economic development prospects, and to the Chinese government's development policies, especially SOE reform. The outcome of the SOE reform gave valuable lessons to countries that faced similar SOE

problems

China's development policies caused many important changes in Chinese economic structure such as the emergence of a new competitive structure in many Chinese industries as well as, the governmental supporting of large SOE's. The emergence of strong local competitors did not only intensify market competition but it

also shaped the competitive mechanisms and structures among competitors in many markets. This new situation also had important implications for foreign Multi National Companies (MNCs) to become strong competitors. These factors caused some cooperative problems, including disputes about management control over the

cooperative entity and conflicting strategic objectives.

The significant progress, both economic, and social helped China to enter strongly as an essential partner in the present world (occupying fourth place in the world.). But the question that did not crystallize until the moment is: Will China keep a socialist state under the market economy that it currently has, or it will turn gradually to the system of state capitalism as a prelude to its transformation into a capitalist country for the benefits of Chinese? These concerns or possibilities are based on many indicators and data that confirm it. Also, the modern Chinese leadership can not be reconciled with the laws of the socialist economy and its curriculum (approximately 60% of the Chinese economy) .Thus, the extent of discrepancies between the Chinese private sector and the Communist Party and its programs will remain. Economic reforms in China have also opened up space for dialogue on a number of important political issues, including: 1) how to reach an appropriate balance between the political system and central planning in economic issues, 2) how to handle open market economy with its mechanisms of competition in many aspects of the Chinese economy.

China's remarkable growth in the 1980s and 1990s coincided with a decentralization of practical decision making on various economic matters. This decentralization took place in a system in which a large share of expenditure and revenue collection occurred at sub national levels. Some scholars believe that this decentralization facilitated market reforms and catalyzed the country's economic development. Political decentralization, however, could not have stimulated the main policy experiments that grew into China's reforms since these experiments occurred in the late 1970s and early 1980s. At this time, China was a centralized Leninist autocracy where Beijing remained fully capable to fire disobedient provincial

governors and impose its policies

Low industrial concentration and the relative self-sufficiency of China's provinces may have rendered them less vulnerable to disruption. The competition was between central political factions of different ideological flavors. In short, this was the kind of competition between vertical teams one would expect in a centralized, multitier system. Thus, centralization does not always lead to reform and rapid growth. Obviously this was not the case, as China's history from 1945 to 1978 demonstrates. It was quite possible that pro-reform factions would lose or win only temporarily, as had happened many times before.

Since 1992, when all essentially accepted the goal of mercerization, factional lines have reflected less fundamental divisions—geographical or institutional loyalties, personal ties, and more muted conflicts over the balance between liberalization and income redistribution. Nevertheless, factional competition continues to influence policy battles more decisively than competition between local and central interests. Understanding the role of political and fiscal decentralization in China's reforms is important since the country's experience is often taken as an example for other countries. Those who praise China's gradualist, incremental approach often associate this with decentralization.

Decentralization is sometimes presented as almost a functional equivalent of privatization, an alternative to reforms in more fundamental property rights. It can be also a source of pluralism -perhaps accountability- even in the absence of democracy. If one accepts that decentralization had little to do with the success of China's

reforms, one must seek other explanations for the country's performance.

Democratic transition in China may lead to the introduction of economic modernization in the face of what the political instability may come as a result of the difficulties that may arise from: 1) the transition from planned economy to market economy, 2) decentralization, which may require legislations and decisions 3) reallocation of resources to achieve social justice 4) responding to the aspirations and ambitious individuals to further political and economic freedoms, and 5) the external

pressure, which was the result of the integration of the Chinese economy in the international economy. This is because the Chinese believe that foreign policy must remain the servant of the objectives of China's economic or so-called diplomatic economic development, which cannot be achieved without adopting a foreign policy, based on mutual respect and on the concepts of economic partnership. All the above, have made China's foreign policy efforts to expand the scope of cooperation, and intensify consultation and coordination with all countries, institutions and regional and international organizations.

After running the different statistical tests and comparing the results to the hypothesis in this study, differences can be found between **both of them** showing a negative relationship between the political rights and the rate of the economic growth in the Chinese model between the years 1978- 2003. This goes against the present study's hypothesis that more political rights achieve more economic growth (but keeping in mind that the Chinese system doesn't have enough political rights, so this might explain the relation that in their communist model, the less political rights, the

more economic growth).

The other factor explaining the relation between political stability and economic growth is the freedom house rate of democracy where the result shows a negative relationship which is explained in the Chinese system as they are having a communist system, so the relation between the rate of democracy and the economic growth rate is negative.

The relation between the upheavals and the economic growth is positive in this model; meanwhile it was expected to find a negative relationship between both

variables. But the relationship is not statistically significant.

The last political variable is the durability of the government, which shows a positive significant relationship to the economic growth. This confirms the hypothesis that the more political stability in the Chinese model, the more the economic growth can be. It is also worth mentioning that the statistically significant variables in the model are the political ones, which confirms the relation between the political stability and the economic growth

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