

The Road to the Market Economy in the Socialism with Chinese Characteristics

Nicola Giannelli

*Assistant Professor in Political Science
University of Urbino Carlo Bo, Italy*

Abstract: China's spectacular economic growth has a main explanation: after Mao's death the communist leadership took the road of market competition as way of innovation and economic growth. Leaders of the Chinese Communist Party wanted to change the economic regime without changing the political regime. They guessed that failures of Soviet and Eastern European regimes could be avoid if Party proved to be able to provide a better life for Chinese people. Communist Party leaders decided to use market competition and local institutional competition as engines of economic growth. They did not want to take the road of privatization but managers rights were separated from property rights and private enterprises were gradually allowed. The Socialism with Chinese Characteristics is a pragmatic and dynamic equilibrium between state control, competitive management of public assets and limited private initiative. Despite the rise of political corruption and social inequality, the approach has been successful so far. The élite has kept the power through a network of public and private managers hegemonized by the party. After the devastating disorder of the Cultural Revolution, order and harmony are again the core values of the Chinese political thought. Market society is now expected to be brought by Party State to full socialism in 2049 or later.

Introduction

The incredible rise of China's Economy under the same party regime is the biggest political news of this century until today. It happened against all odds if we consider that very few western scholars thought that Chinese Communist Party could be able to open the country to market competition without losing control over the political system and even without changing its name.

The Chinese traditional political thought can give us a first explanation. In the Mencius-Confucian idea of Mandate of Heaven there is a right of the people to oppose the supreme power of the Emperor (the State) when there is evidence that he is not able to ensure the welfare of his subjects (Youngmin 2018). It is a crucial point in a society based on paternal authority as a model of discipline. The legitimation linked to performance (Scharpf 1999) was a main source of the legitimation of the Empire (De Vos and others 2014). It was also present in Mao's mind who believed the purpose of socialism is the welfare of the people.

Now China is just regaining its place in the world. Since the third Century BC the Middle Kingdom has been the World's largest polity and so the biggest economy. It was "all that is under heaven" (Tianxia). The new nationalism is now presenting actual economic success as a reversal against the temporary humiliation that has been inflicted by western powers to the Celestial Empire.

Modernization has been the key word since then. The communist leadership who refounded the state in 1949 believed that socialism was a way to modernize a poor rural country. Mao Zedong was convinced that the answer was in the revolutionary orthodoxy but he was unable to eradicate poverty that was a primary goal for him as well. That's why he abandoned the centralism of the soviet model. After his death the leadership looked at these failures and at the troubles of the European and Soviet socialist regimes and it took a different way to stay in power.

We will see how China invented the Socialism with Chinese Characteristics as a way to change the economy without changing political regime. There is no counterfactual proof, but we believe that this did not happened despite the slow pace of reforms of Chinese leadership, but as a final goal of a pragmatic strategy.¹

As a first step we will have a look at some institutional legacy of the Imperial past. Then we will see the transition from communist to market economy . Finally we are going to outline the Socialism with Chinese Characteristic.

¹According to an OECD report (Wing Thye Woo 1999) experimental its scholars believe that growth came as unintended consequence of the caution adopted by decision makers while convergence scholars say that success did not come because of gradualism in reforms, but in spite of that.

The roots of today's China: property and leaseholding² during the Empire

We know that rules of property rights are very relevant in economic development (North 1990, Besley, Ghatak 2010). However during the communist time, private property rights were limited to a few personal things and economic planning took the place that used to be of the market.

During the Empire China was a rural economy but there were large markets in towns and an intense trade along the huge network of waterways built and maintained by the State. The definition of property rights in the countryside has remained fairly stable from the beginning to the end of the Empire. While in feudal Europe the power of aristocrats over land and farmers was a political rule, in China there was a more "modern" ownership and peasants were not tied to the land of the lord. At the beginning of the Imperial Age (III century BC) 92% of land was privately owned. Later on there were Emperors that brought large parts of land under state ownership.³ Legitimation of Imperial power was strong enough to forbid primogeniture right in landowner inheritance, a way to divide wealth and power of richest families. This would be a blasphemy for the European aristocracy. Landowners were not exempt from taxation, a constitutive privilege of political legitimacy of European aristocracy. This privilege was given to state officials, and this shows the will to create a class of privilégié whose entitlement was not given by their family but by the state. Access to state bureaucracy was formally open to all people who could study the Confucian textbooks. The result in China has been a high fragmentation of land property and an open access to land property for people of the urban gentry who wanted to buy their "noblesse". This access was also a way to drain from towns the urban class of marchants who had little social prestige. Urban bourgeoisie never gained a relevant political weight. Property rights on land were defined with a clear distinction between topsoil and subsoil, in order to distinguish property from use of land. We will see how this distinction between property and use is current today after the reform of state property of the Chinese Communist Party. Land taxation and the cultural link between familiar lineage and the land, both were conditions for a market of leasehold rights which developed early.

"Free holding of land was comparatively less profitable as the landlord had to pay a land tax and the rent collected was fixed. In contrast lease holding tended to be more profitable since the landowner had no tax obligation and the rent collected tended to sharecropping (...) The tenant's rights were well protected in traditional China which provided a good incentive for them to work hard and invest in the property. The duration of the rental contract tended to be relatively long, with most of them semi-permanent or completely permanent since the Song Period (960-1269 AC). The tenancy rights were hereditary (...) but they could be freely sold or mortgaged without the permission of the subsoil owner." (Chai, 2011, p. 18)

Farmers in China could enjoy a local freedom of movement and decision, but they had to pay taxes and/or they had to work for free for their real lord: the Emperor. Considering that farmers tended to unregister their land, total taxation was not so high: from a 1,6-2,5% of GNP during the Han (202 BC- 220 AD) and Tang (612- 907 AD) Dynasties to 2-4% during the Ming Dynasty (Deng 1999 in Chai 2012).⁴ The rents peasants paid to landowners (or to the state if it was the owner) were not as high as in Europe. But Chinese farmers had to work for free (or pay) in public works. Again is the State the first lord.

State intervention in Economy during the Empire

In China state intervention in economy was already relevant in ancient times. A first market policy was implemented through a granary system that began to work in first Han Empire and became extensive in Tang Age. These granaries worked in 3 ways. They were used to collect taxes in goods. They empowered the state to sell or buy on local markets to reduce fluctuations of price and quantity of cereals in order to alleviate famines. The third use of granaries was charitable, as support for fragile people, especially widows and their children who lacked the welfare support of their families. The first two uses required a "policy design" of intervention in market economy and state officials able to manage it.

A second kind of state intervention in economy were public works, mostly in building and maintaining waterways and irrigation. A network that was expanded during Song Age.⁵ For China's economy irrigation was

² The payment of cash for the use of property or monopoly rights

³ For example during the Song Dynasty (960-1279 AC). Lands conquered or taken from aristocrats on the losing side of a dynastic struggle were entrusted in use to loyal soldiers.

⁴ Han (202 BC- 220 AD) is the dynasty who gave their name to chinese people, Tang is the classic period (612- 907 AD), Ming (1368-1644) is the dynasty of the wider Chinese egemony.

⁵ After Tang, Song

very important for agricultural productivity, in particular to organize the cultivation of rice in the South that was more productive than wheat cultivated in the North. This water network was an important transport network too. The greatest public work of all times was the Grand Canal, an artificial waterway 1800 km long. Marco Polo told that more ships sailed there than in the whole Mediterranean. This huge network required continuous public maintenance and it was a tool for state control and taxation over population and trade.

The Song Dynasty (960 AC-1279 AD) was “the first government in the World to adopt an integrated approach to rural development”(Chai, 2011, p.22). Since 1012 AD it delivered hundreds of tons of new seeds with written instruction on how to cultivate it. New techniques of cultivation were printed in handbooks, thanks to printing machines that in China were invented 4 centuries earlier than in Europe, and masters were sent by the state in rural areas to spread the knowledge. Fertilizers and irrigation were brought in many new areas. Agricultural products were exempted from commercial tax while tax on production was reduced to the value of one tenth of the harvest. Government took measure to limit landlords exploitation of farmers while some kind of public credit for peasants were introduced. This slow growth of productivity, according to Chai (2011), finished in the XIII century AD. After the Song Period the whole economic growth was due to growing population (+ 570% from 1400 AD to 1850 AD) and extension to west, southwest and northeast of the cultivated area (+324%). New crops coming from America (potatoes, tobacco, corn and peanuts) in Chai’s view were just enough to balance the relative shortage of land vis à vis the growing population and the necessity of cultivating less fertile lands. The result was a stable per capita output during almost five centuries.

Government ceased to grow when in Europe it started a new interventionism.

During the imperial rule, a few key business like production of salt, alcohol drinks, porcelains and silk, were directly managed by state officials. Many others were private but subject to government regulation often decided at provincial or subprovincial level. Here is the story of a huge central administration that had to rely on thin number of local officials who had strong connection with local interests. In order to limit the centrifugal effect of the local roots of their power, the Emperors used to have a professional body of inspectors in charge of investigating illicit enrichment of personal provincial officials. Anti- corruption campaign has always been a way to respond to popular discontent due to a widespread abuse of power.

From the end of Song Dynasty (960-1279AC) to the end the Qing dynasty in 1913 Chinese Government did not grow in role. While in Europe the mercantilist theory convinced the rulers that trade balance was the main tool of national state power, Chinese Government did not see things in the same way. We must remind that China has a continental dimension and foreign trade was a small share of the economy. Chinese Administration thought that trade was needed to exchange goods from a place to another, but it never saw the need for a comprehensive policy to remove regulatory barriers to internal trade to strengthen the power of state. In the XIX century “It had failed to establish and maintain a proper infrastructure for trade development as there was: (1) no uniform system of weights and measures (2) no national monetary system (3) no national banking system (4) no uniform taxation (5) no adequate institutional framework to support private contracts. In addition the transport and communication system was rather primitive.” (Chai 2011, p.38) We can say that long after the great effort to create rural development and water regulation system, China’s rulers became more conservative than innovative. Still in 1908 the size of Government administration was estimated to be only 2.4% of GDP.

The economy during the Communist time

After the end of the Empire, Republican Nationalists, like President Sun Yat Sen, and communists, like Mao Zedong, found in Moscow an ally against Western and Japanese Imperialism. The Chinese Communist Party looked at USSR as a model of single party rule. They also thought that stateplanned economy could drive China to industrialization and modernization like it was doing in Russia. After a few years the strategy was considered a failure. The Party decided to give more room to collective and state management at local level. “His strong opposition to centralization brought Mao at the first proposal of the economic system in order to turn away China from Stalinist orthodox socialism. During the third Plenum of 8th Central Committee in October 1957 his proposal was approved. (...) 88% of state enterprises that belonged to the ministries were placed under control of local authorities. (Coase and Wang 2014, p.39) ” During these years China experienced the Tragedy of the Great Leap Forward. The state industrialization plan that brought a famine which had a death toll estimated between 16,5 to 30 millions in 3 years mostly in the countryside, if we believe in available official data. “Our findings suggest that the most important causal factor is the diversion from agriculture, which was responsible for the 33 percent of the collapse of output between 1958 and 1961. Excessive procurement of grain,

which decimated the physical strength of peasantry, is the next larger contributor accounting for 28.3 percent of the decline in output. Bad weather did play a role of 12.9 percent of the collapse in production. The crisis thus had the mark of a perfect storm. (Li and Tao Yang 2005) ” The change from family to cooperative and then to communes' agricultural production proved to be a failure as well. This was a field of ideological conflict. Inside the Party there were already leaders pressing towards more individual incentives. Mao saw in these ideas "dangerous tendencies towards capitalism" (Samarani 2017 pos.4489) while Deng Xiaoping said that "it doesn't matter if the cat is white or black, as long as it catches the mouse", the streak of pragmatism was not disappeared.

Looking at the communist time more broadly the economic landscape is not so sad, but still China did not achieve the general improvement of quality of life that was Mao's stated goal, and this was more evident in light of growth of countries that used to be at the periphery of Chinese Empire. "Between 1952 and 1978 China experienced an average growth rate of 2,3% annually. It is much less than its Asian neighbours and similar to population growth during the same time. (...) The main reason why standard of living growth failed to match the growth of GDP lies in the inherent weakness of the development strategy adopted during this period which emphasized resources mobilization for growth rather than for increased efficiency. In such circumstances the tempo of economic growth can only be maintained with ever increasing inputs of labour and capital. But since capital can only be expanded at the expense of consumption, and labour only at cost of declining leisure, the economic growth during the Maoist period was mainly sustained at the cost of consumer welfare." (Chai 2011, p.153) Still China showed a good performance in reduction of urban e rural inequality but it did not bring to a real egalitarian society because of the privileges in power and in jobs of the party's leaders at all levels. The Mao's effort to promote social mobility against any kind of élite took the face of a civil war.

During these troubled times, on the good side there, we can see a great growth of indicators of human development, longevity and literacy rate. "This is reflected in the dramatic increase in the average life expectancy which rose from 36 years in the 1940s to 64 in 1979. In the same period adult literacy rate rose from 20% to 66%." (Chai 2011, p.154) The basic health care and social policies made many people live better over the long period. These improvements were a social capital when China decided to turn towards market economy. Still Mao's strategy of heavy industrialization came at the expense of agricultural incomes, widened the gap between the majority of population in rural areas and the minority living in industrial towns. People were not allowed to move from countryside to towns and not even to the better countryside where agriculture could supply more wealth. As the dogma was territorial self-sufficiency, there was not a real redistribution. Territorial inequality was high and exposure to famine of the more fragile people as well.

Pragmatism took the place of orthodoxy

The Cultural Revolution was an egalitarian crusade, a kind of civil war sparked by Mao Zedong against the ruling class of his own party that gave rise to all kinds of popular resentment. If this witch hunt did not destroy the political regime it is because it spared the People Liberation Army, headed by Mao Zedong himself with the few people that deserved his trust. This can explain why Mao never left the head of Defence Commission that had the political control over the Army. Deng Xiaoping, after Mao, did the same.

After Mao's death, in 1978, at The 3rd Plenum of the 11th Party Congress, Deng Xiaoping and Hu Yaobang managed to bring together all reformers against Mao's political orthodoxy.

Hua Guofeng, was the man chosen by Mao to take the Party Secretariat and he had the chair of the Central Military Commission between 7th October 1976 and 28th June 1981. But as he took power he showed more pragmatism than orthodoxy. Hua was the first Secretary of PCC who said that socialist sobriety had to be abandoned to promote economic growth (Coase and Wang 2014 p.61). He recalled the need of the Four Modernizations (agriculture, industry, military, science and technology) that were first announced at the People National Congress by Zhou En Lai in 1964 and a second time by Deng Xiaoping 11 years later. Both party leaders were not strong enough to change the direction of policy making decided by Mao. Deng was even exiled in a minor town and only in 1975, after 8 years of work in factory, was recalled by Mao to serve as vice-premimister. Soon after the death of Mao, in 1976, Deng and Hua published an unknown paper written by Mao Zedong on 25th April 1956 in which the leader criticized the central-managed heavy industrial of the soviet model. "Here I would like to touch on the question of the independence of the factories under unified leadership. It's not right, I'm afraid, to place everything in the hands of the central or the provincial and municipal authorities without leaving the factories any power of their own, any room for independent action, any benefits. (...) As a matter of principle, centralization and independence form a unity of opposites, and there must be both centralization and independence. (Mao 1956) ” This old paper gave to the new leadership the theoretical basis to

speak of a change in continuity which is the refrain of the new political course. It was a way to open the way of change from central planning to management autonomy in accordance with the thought of the Great Helmsman. We must remind that Chinese Party leaders never appreciated the complaint of Krushchev against the dead Stalin. They felt it was too much delegitimizing. Claiming continuity in change is a positive value in a Confucian Society. Mao did his best to delate Confucian legacy but nobody can erase a culture rooted in a civilization. This culture was also a limit to marketization reforms. "First, the social tradition has worked to a certain extent as an internal restraint on state reforms. (...) secondly the social tradition gave workers, peasants and other social collectivities some legitimate means to contest or negotiate the state corrupt or inequalitarian marketization procedures" (Hui Wang in Arrighi 2007 p.368)

The need to change strategy without changing regime

After Mao's death Party leaders wanted to regain legitimacy by assuring peace, order, stability, and growth of incomes, in line with Chinese traditional political thought (Cheng 1997). They knew that after the death of its charismatic leader the Communist Party needed a new source of legitimation. Revolutionary enthusiasm proved to be very dangerous during the last years but socialism could not be abandoned without delegitimizing the leadership of the party. They had to tell a new story (Harari 2018). Fortunately, learning from errors is a virtue in Confucian culture. Mao himself admitted his errors when he announced a change of course. A change that must be in continuity. He said that Stalin was 70% right after his death while Deng said that Mao was 70% right, just after he was dead too. Therefore, learning from the past to keep on going. "First, the factional struggles and political chaos of Cultural Revolution completed, but at the same time threatened to destroy, the achievement of the Chinese Revolution. And second, the onslaught of the Cultural Revolution did not spare Chinese Communist Party, seriously undermining the bureaucratic foundation of the power and privileges of its cadres. Deng's reform thus had a double appeal, to party cadres and officials as a means of reconstructing on new foundations their power and privileges, to the citizenry at large as means of consolidating the achievements of the Chinese Revolution that the Cultural Revolution jeopardized. On the first appeal the reforms created myriad opportunities for the reorientation of entrepreneurial energies from political to the economic sphere, which party cadres and official seized upon to enrich and empower themselves in alliance with government officials and managers of State Owned Enterprises – often influential party members themselves" (Arrighi 2007, p.368).

A Party Leader who represents continuity in change after Mao Zedong death is Chen Yun (1905- 1995) a point of balance between conservatives and reformers, a former union leader, self-taught economist. He was considered a pragmatic pro-market leader in Mao's inner circle and became a cautious advisor in front of the pro-market reforms after Mao's death. "He is well known for his theory of the 'bird cage economy' where economy is the bird and the plan is the cage. If the cage is too small the bird will die, but if there is not cage at all the bird will fly away." (Chai 2011 p.164) As far as he was office, up to 1992, he was one of the party leaders that was in favor of going on with reforms but very carefully. He was aware of the fact that when you change constraints and incentives in such a huge country you will easily lose control of the direction of the move. That's why, if ultra-liberals thought that he was a conservative leader, people who still cared about socialism thought that he went too far.

Socialism with a Specific Chinese Character: steps towards the market.

In December 1978, at the 3rd Plenum of the 11th Party Congress, the General Secretary Hua Yaobang was not asked to invent a new economic view. He just implemented the Ten Year Plan written by Deng Xiaoping as vice prime minister in 1975 that was left undone. That's why the plan was quite in a socialist old style and strongly centered on state investments in production and innovation. The plan had a certain success but ran short of capitals (Coase and Wang 2014). Communist leaders already knew that only market economy could boost the growth and spread the wealth needed to regain the consent of people. In the same time, just two months after the death of Mao, Hua gave the green light to the production for free sale among private citizens on small markets. Both things used to be forbidden as antisocialist. After a large national debate, in some regions farmers were allowed to sell on the market at free price the production that was over the quantity of the official plan. A crucial tool of gradual change was the double price system: a fixed price for planned production and a free price for market goods. The production rose suddenly and the experiment was extended to all regions. This encouraged other steps in the same direction. Local public enterprises were authorised to sell their overplan production at market prices and outside their region. Market competition was spreading time by time. Since

1981 national State Owned Enterprises were step by step authorized. Still in 1987 consumer goods sold in markets were 50% while 36% of producer goods were sold on the free market.

As planned prices were fixed, anytime the market prices were higher than the fixed ones, producers (state enterprises too) tried to maximize the share or the quality of goods they sold on the free market. So while consumer goods at fixed prices ran out easily, market prices began to rise more than incomes. That's why in 1988 Government decided to align fixed prices to market prices. "However, since the premature announcement of this measure led to inflation and a run on banks, which contributed to the Tiananmen disaster in 1989, the Government abandoned the price reform and did not eliminate the dual-price system until 1992" (Chai 2011, p.172).

There was not a free labour market yet, but monetary incentives were allowed and wages began to grow. As far as we know, Deng Xiaoping never said "To get rich is glorious". It was a title of a famous book (Shell 1984) which tried to summarize in a few words the spirit of that time. He surely said that "socialism is not poverty". Under Deng and Hua's rule China started again to study western science, technology and market economy as tools for innovation, growth, welfare. For the second time in its history China initiated a strategy towards modernization. Delegations were sent to learn in Hong Kong, Macao, Singapore, Canada, USA and European countries. In 1979, visiting Japan, Deng said he was very impressed by technology of Japanese factories. Many officials and Hua himself went to visit Yugoslavia which was seen as an example of non-soviet socialism and where state companies enjoyed a certain freedom of self-management.

It is very important to emphasize this point: studying, learning and thinking well before making any decision is a basic rule of the Confucian political culture. It is also appropriate for the pragmatism of Chinese Culture. The trust in socialism does not seem to be just a rhetorical artifice of the Communist Party leaders. It is possible that they think they can learn from capitalism and doing things better. They look at the world from a country which has considered itself the middle kingdom for two thousand years. Capitalism is a western innovation. Chinese can be confident to learn how to make things even better. The Socialism with Chinese Characteristic is expected to be this better model of economy.⁶ "The capitalism in Japan has produced goods in quantities and varieties far superior to ours. We are a socialist country. Very probably we can overtake their level of development." (Liqun Deng and others, in Coase and Wang p.75). This confidence to learn from mistake and to improve towards perfection is another Confucian feature that we see in Japan too. "We are a socialist society. Our organization is surely better than the capitalistic one. However, because of lack of experience, we made some mistakes. As a result the superiority of socialist has yet be fully realized." (Ibidem p.76) This new kind of socialism goes back to the long history of Chinese pragmatism. This new way is well exemplified by the great success of an article first published on Guangming Daily in 1978 by a philosophy professor at Nanking University, Hu Fuming, which was titled "Practice Is the Sole Criterion for Testing Truth (Zhang 2008)." The author was not famous when his article started a widespread debate in the country and its title became the synthesis of this new policy line. As there are not electoral deadlines to fear, Socialism with Chinese Characteristics can take its time. "Advance and mature socialism requires that we should continue to develop and improve our material and technical foundation, as well as technological progress. (...) To achieve modernization, to build our country into a prosperous, democratic, civilized and harmonious socialist country, there is still a long way to go, till the middle of 21st century in order to basically realize modernization. (Xu and Qin 2011)"

Steps towards marketization: the Household Responsibility System (HRS) and the Township and Villages Enterprises

In 1976 rural population was 80% of total. Mao and Chen share the idea that soviet socialism did not performed well in rural China and that's why after centralized planning they experimented local development with autonomy in collective administration. However, even if more autonomy was given to the communes in order to make incentives for workers teams, their multipurpose and bureaucratic structure was inefficient. In 1978 when autonomy began to get along with market economy in the country a there was huge debate about the

⁶ The People Daily titled "Building Socialism with a Specific Chinese Character" when it told a speech hold by Deng Xiaoping at the Central Committee of the Communist Party (30th June 1984). Deng said: "planning and market forces are not the essential difference between socialism and capitalism. A planned economy is not the definition of socialism, because there is planning under capitalism; the market economy happens under socialism, too. Planning and market forces are both ways of controlling economic activity"

abolition of communes and the introduction of Household Responsibility System (HRS) that is the scheme under which any household is responsible for the production on the land he/she has to grant for the state. The system recall to mind the renting system of ancient China during thousand of years when a large part of the land used to belong to the state.

In 1979 the system was only adopted as a trial in a few regions mainly where agriculture was less productive like in mountainous or hilly lands. However in few month more and more villages learned from those regions and developed their own household responsibility system (Yifu Lin 1988).

"In early 1979, the National Agriculture Council was founded, which started a heated debate over whether China should adopt the household responsibility system within the Chinese central government. (...) the majority of representatives displayed a supportive attitude towards this proposal. However, the opposing voices were also strong. Wang Renchong, the Head of the National Agriculture Council, kept emphasizing the advantages of the collective economy and opposing the idea. In the end, Hua Guofeng, the Chairman of the Communist Party of China at the time, concluded that collective production did work, yet a certain amount of flexibility was also needed. (Chai 2001 p.184)" During another speech in May, Deng Xiaoping supported the practice of Fengyang County and Feixi County of Anhui province and said that "Some colleagues worried that to practice this kind of system might hamper the development of the collective economy. I think these worries are unnecessary. Our overall direction is developing a collective economy. As long as the productivity increases and the division of labor and commodity economy develop, our collective economy will grow from a low level to a high level." (Wikipedia 2021)

In January 1980, The People's Communes Management Meeting was held in Beijing. In the meeting, Zhou Yueli, the Director of the Agricultural Committee of Anhui Province, introduced the system of agriculture development in Anhui. Zhou reported that by the end of 1979, 51% of production teams had adopted the production unit responsibility system, and 10% had adopted the household responsibility system; there was a significant production growth and 25% of the underdeveloped regions asked to adopt the household responsibility system. However, Zhou's idea received severe criticism from many representatives from other regions and caused a huge debate over whether the household responsibility system was the right approach to take. In the end, Deng Xiaoping concluded the debate with pointing out that household responsibility was a highly complicated and critical issue, and that it was unlikely to reach a simple conclusion. While the central government was still struggling with the idea, going back and forth, more and more villages went ahead and started adopting the household responsibility system. In December 1981, the National Agricultural Work Meeting was held in Beijing, which emphasized the idea of letting people choose by themselves which systems to use. Soon later in 1982, the Central Committee of the CPC announced its "No.1 document" for the year, Minutes of The National Agricultural Work Meeting, which officially established the household responsibility system for China's agricultural production.

The system was rapidly adopted nationwide and significant agricultural growth was witnessed. During the 20 years of collective agricultural production, the annual agricultural output was 300 billion kilograms, yet by the time of 1984, the number increased to 400 billion kilograms. At the same time, the overall agricultural GDP increased by 68% and the average income of farmers increased by 166%. The success of the household responsibility system signified a significant transition in China's economic model and opened a new era of China's agricultural economy and rural development. HRS has succeeded in rising many millions of people from poverty, improving their health and spreading trust on market economy. The economic growth of agricultural productivity was one condition of the great production growth in industry and services because it gave the chance or forced millions of workers to look for another kind of job.

Only a few people had to pay a price. "The results [of our research] suggest that while rural children born after the reform may have benefited in terms of health and income, those who had the bad luck of reaching school-entry age shortly after the reform have experienced declines in education and long-term mobility" (Huayu Xhu 2021) The main problem of decollectivization was the fall of the social protection that was based on large working units.

It was the Responsibility System in agriculture which spread sparked the light industrial revolution in China. The gain of productivity has increased the demand for investment and consumer goods in the countryside. From villages and small town, from the ashes of the communes came another actor who sparked the second Industrial revolution in China: the TVEs.

"Township and Villages Enterprises are business enterprises formally owned, or informally sponsored, by local collectives, that is, by township and village governments. (Kroeber 2020 p.51)".⁷ Private enterprises were could not hire more than 7 employees and did not have access to bank credit. TVE could be managed like private business, allowed to sell a large (the better) part of their production to market and they had access to the banks. In ten years they rose their production up to one quarter of GDP and gave jobs to 18% of all workers (Kroeber 2020). Their production was low quality and low technology but it was a booster for economic growth and an example and a challenge for the much bigger State Owned Enterprises⁷ that were undergoing managerial restructuring in order to be able to stand on the market. The new half-market economy opened many chances to managers of public firms that could make money, for example, selling goods registered as planned production at the higher price of the market. Illicit and illegal behaviors were rampant.

The end of Iron Rice Bowl and the illegal internal migration

An Household Registration System is legacy of the Empire. Registration was necessary to take taxes and to call people to serve in public works. Popular Republic of China began its life granting freedom of movement to its citizens, also written in the 1954 Constitution (Cheng and Selden 1994). But already in 1959 a new registration system was introduced and it became a central tool of the control of state over the life of people and communities: the Hukou. As long as China was a mainly rural country and trade was controlled and planned by the state, people had to live in same place or ask for a justified permission to move. Most people used to live and to work in the same place all their life. The "Iron Rice Bowl" is the name of the state job that was guaranteed and/or imposed to all people. When the Government turned towards market economy, many jobs began to be replaced by fixed-term contract or by permanent contracts with incentives and penalties. From 1997 SOEs were left free of failing and merging while workers could lose their job. And Chinese workers had to wait until 2007 to see a new legislation that, at least on paper, gives a new framework of rights on labor market (Franceschini 2016). During this Great Transformation of the Socialist Market Economy more and better paid jobs were generated in towns, while the rise of agricultural productivity made the demand of rural workers decline sharply. That's why a strong movement of workers from villages to towns and from poor towns to richest cities was predictable.

The Governance of Hoku did not follow the line of market. For example, according to census data, in 2005 there was a stock of 66 millions of internal migrants, more than 90% of them without permission of residence in town (Facchini and others 2018). Beside them there were at least as many migrants who were invisible in census data. The number has grown since then. All these invisible people did not have access to public services like health care, housing and schools. Communist welfare used to be granted in the workplace usually by the same institution that gave the job. People who left their villages without Hukou were weak in front of the new employers. Universal welfare was slowly introduced to registered people (UN and ILO 2020). Families that did not have permission were badly damaged by the lack of services. When both parents moved to work far from registered homes, children were entrusted to the care of their grandparents but in many cases they were not properly cared and many suffered and had bad results at school. "Officials have focused their attention on a subset of those affected. The guidelines in 2016 count as left-behind only those who are under 16 and have two parents working elsewhere. That year the government said there were just 9m children who could be classified as left-behind according to this definition" (The Economist April 8th 2021). Provincial and cities governments had to find practical solution for all those people who came in towns and for the children left behind. Some of them did quite a lot, most of them did just a little, some did almost nothing.

From economic freedom to Tienanmen protests

After the start of the Household Responsibility System and with a growing number of Town and Villages Enterprises authorized to sell on market, in 1984 the Party decided to give State Owned Enterprises (SOE) more management freedom extending the dual-price strategy. As usual, the first price was fixed by the state in order to provide the goods planned by the state, the second was a market price at which production could be sold after political goals were achieved. While in 1981 most national production was sold at fixed prices were the most, in 1987 the market pricing had become the largest share. These Reforms were call by the Party as "Urban" but they had a greater impact on small towns and village were was given more freedom as a way to prevent

⁷Owned by national state, provinces and large cites. The 4 (or 5) different levels of Government are very complex to describe.

migration from countryside. Growth of local owned enterprises was huge and unexpected. Deng Xiaoping declared his surprise. This went beyond reformers' intentions. Most of these enterprises kept to be registered as public or collective because privatization was seen as a bad thing but they were managed like private ones. Free prices boosted demand and inflation as well. Widespread corruption and the rise of inequality also brought political protest. The new economic freedom gave room to the perception of a new social freedom, so there was a rise of protest and claims that shifted from economic to political reforms. Rebellions and riots are quite common in China's history but in 80s Party leaders were scared by the troubles of Eastern European communist parties and this fear explains why the reformer Hu Yaogang was fired as General Secretary in 1987. The climax of social unrest was the 3 weeks of student protest in Tiananmen Square in 1989 that was severely repressed. The PCC, still under the influence of Deng Xiaoping that kept the head of Military Commission, decided to slow reforms.

In 1992 Deng Xiaoping went visiting the Gaungzhou, Shenzhen, Zhuhai and Shanghai and he could see with his eyes the amazing growth of the Special Economic Zones. After that visit, the Open Doors Policy to foreign investment was extended to 28 more cities. At the 14th Party Congress in 1992 Deng promoted Hu Jintao –a pro-market reformer- as leader of the Party and the old vision of planned economy was at the end. However the State kept a key role thanks to relevant public investment. Next year the double price system was abandoned in favour of total market pricing. Jobs in SOEs were no more life guaranteed. Socialist market economy looked more similar to capitalism than to communism. Since 1993 Public Owned Enterprises could be privatized. Private Chinese entrepreneurs were allowed to start a business with a few employees. In 1994 a new tax system gave more autonomy to provinces and Renminbi (Chinese currency) was devaluated and freely sold on market. In the coming years many smaller SOEs were privatized and a new property law was passed in 2007 to comply with WTO rules where China was admitted in 2001, when the president of United States was the Republican George Bush Jr.

The Three Steps of the Financial Policy

During the 80s the collapse of socialist regimes in Europe put it clear that simple privatization, without a key role of public investment, made it impossible to pursue technological modernization. However China needed to involve foreign private companies which had expertise and market oriented knowledge. Communist leaders were aware that China could be attractive for two main characteristics: a huge pool of skilled and disciplined workers at low cost and potentially the largest consumer market in the world. Main barriers to entry were the complex regulation and institutional governance, language and culture. A large number of mediators was found among the Chinese community abroad, while Chinese students were facilitated by the state to go to study abroad, mostly in the United States.

“The matchmaker that facilitated the encounter of foreign capital and Chinese labor was the Chinese diaspora capital. (...) The overseas chinese could bypass most regulations thank to familiarity with local customs, habits and language, to the manipulation of kinship and community ties –which they strengthened through generous donations to local institution- and the preferential treatment they received from CCP officials (Arrighi 2007, p.352).”

Hong Kong was the main door through which capital, technology and management skills flowed to Chinese Economic Special Zones. These were an institutional innovation in the line with the Chinese pragmatic experimentalism. Each zone had a specific governance aimed achieving goals through public-private partnership in which state and local institution always played the main role.⁸ As foreign companies were obliged to make joint ventures with State companies this was the guarantee that Chinese people had the chance to learn from foreigners and so they could spread knowledge all over the country. The goal was to boost export of low technology goods in order to import high technology and investments goods, then to replace imports with home made of high level goods. It is a policy making that requires a middle-long term view.

Surprisingly, Chinese Socialist Government did not give priority, to direct state investment. The state banking system was asked to provide financial support. This happen in three steps.

⁸In 2014, there were 6 SEZs, 14 open coastal cities, 4 pilot free trade areas and five financial reform pilot areas. There were also 31 bonded areas, 114 national high-tech development parks, 164 national agricultural technology parks, 85 national eco-industrial parks, 55 national ecological civilization demonstration areas, and 283 national modern agriculture demonstration areas. (World Bank 2017)

At the beginning of the 80s in China there was only the People's Bank of China plus a financial institution of the Ministry of Finance: the China Construction bank. A network of credit cooperatives was in charge of small credit managing at local level (Kroeber 2020). So the first step was to turn the PBC into a classic Central Bank and the Government gave life to four commercial banks, the Big Four.⁹

Only public or semi-public firms and local governments could get access to this credit. And they did it a lot, much more than the business or public investment could justify. This happen because people taking decisions in the banks, in the state, in the Party and in the companies were all closely linked by interest or by Guanxy. Beside that, the rapid growth of the economy could favour the overvaluation of opportunities. At the end of the 90s the Four banks were full of bad loans¹⁰ and the Government decided to reform them, after putting these loans in a bad Bank.

The Four Banks in 1998 got new capital from Government with new rules that forbid giving money to unprofitable business. They are now authorized to give loans to families, also to buy homes.¹¹

The second step a few years later was transformation of the Big Four in true commercial banks, shareholding companies with strategic shareholders, some of them foreign investors who could bring in management knowledge and enough credibility to list them on a stockmarket.

Meanwhile during the 90s hundreds of credit cooperatives had flourished at rural, town and city level from the old cooperative system. They belonged to local companies and local governments. In The third step was the decision to create the China Banking Regulatory Commission in 2003. "Led for its first decade by an experienced reform oriented banker, Liu Mingkang, the CBRC did a good job of ensuring that banks adopted modern risk-management practices and stayed well capitalized. (Kroeder 2020, p.165)"

The path from financial chaos to regulated order took a detour in shadow banking finance. These are services that offer higher return than official banking with higher risks. There were millions of savers looking for better gains with a spirit of gamblers. At that time official interest rates were lower than inflation. Borrowers who could not get money from official banks turned to shadow banking if they thought their business was profitable enough. Even local governments, with their TVEs, borrowed from shadow banking. Official banks, when economy was growing fast, entered the business selling "Wealth management product" of shadow banking to consumers.

The final result of all these banking supply was that in 2018 the official public debt was less than 60% of GNP while shadow debt was 3 or 4 times higher. Then National State Council (Government) took the responsibility of the issue and decided to strengthen its Regulatory Agency which became Bank and Insurance Commission.

Government also had a monetary exchange policy. As we said, the main goal was to import capitals, technology and skills to make China the factory of the World. About this strategy Arthur Kroeber identifies 4 period: first came the managed depreciation (1979-1995), necessary to boost export and to import technology and capital; then came the time of fixed change against dollar (1996-2005), in order to assure a stable return to foreign investment in China; the third step was managed appreciation against dollar (2005-2015), aimed at rebalancing an economy that was becoming rich enough. US leaders claimed that this rebalancing was too slow. However economic analysis showed that the main problem in China was the low level of internal consumption vis à vis the huge share of investment spending, about 40% (Morrison 2010). The forth period began in 2015 when dollar rose with Renminbi that was considered overvalued compared to other currencies and one trillion dollars of foreign exchange reserves was spent in order to fight against overdepreciation of the currency and to stop capital flight.

Marketization without privatization

Chinese leaders had before their eyes the great Japanese and South Korean conglomerates. The Japanese "Keiretsu" are strong networks of companies linked by cross-shareholding with usually a big bank in the middle. In South Korea the law forbid banks to control "Chaebol" and the central role is played by entrepreneurial families.

⁹Bank of China, industrial and Commercial Bank of China, Construction bank and Agricultural Bank

¹⁰One third of GDP

¹¹Land and houses remain state property with a private use right of 30 and 70 years, but home right can be put on sale.

The Chinese model was not designed at the table. Cross-sharing among state owned firms was promoted or allowed at the different levels of government. Private enterprises and foreign companies were allowed to make partnership with them, so the network grew very complex. The main driver of efficiency was the market on which all firms had to compete when fixed prices and planned production was gradually liberalized. Big groups have been pushed to put together their best assets and list them on a stock market. It was not a privatization, it was a way to give their management a further stimulus to be professional and efficient. During the first ten years this path was chaotic. Investment planning and costs drivers showed a lack of accountability. Public banks gave money too easily. As we saw, bad loans rose up by one third of GDP. Since 1995 Government began a reform under the slogan "grasp the big, release the small" (Koeber 2020 p.122). The main idea was to focus state enterprises on strategic activity like heavy industry, mining, transport, infrastructure engineering, national networks and so on. Minor activities and not strategic big business, like construction, could be let to private or local enterprises. The State Council (Government) pressed SOEs to reduce their number through mergers or acquisitions. Big groups had to create their own financial institutions. Government in 2003 gave birth to the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) a technical agency charged of overseeing the process. From 1997 to 2008 the number of SOEs decreased from 262,000 to 110,000 while their revenues grew at double digits like the economy as whole. Even if a few of these firms became among the biggest of the World, the Government did not want to create state monopolists. In strategic fields like energy production or air transport there are SOEs in competition too.

Communist Party leadership had enough knowledge of capitalist economy to know that the engine of growth was marketization and not was privatization as such. "But for now another smithian feature of China's transition to market economy suggests caution in characterizing it as a transition to capitalism. This other feature is the Government's active encouragement of competition, not just among foreign capitals, but among all capitals, whether foreign or domestic, private or public. Indeed the reforms put great emphasis on the intensification of competition though the breakup of national monopolies, and the elimination of barriers then on privatization. The result has been a constant over-accumulation of capitals and downward pressure on rates of profits, which has been characterized as China's jungle capitalism but looks more like a Smithian world of capitalists driven by relentless competition to work in the national interest. (Arrighi 2007 p.359)"

In the 90s Washington Consensus was the hegemonic agenda and it was dominated by the idea that privatization was as a necessary way to economic growth (Williamson 2003). "This has never been a serious option, because even the most reform-minded officials from Deng Xiaoping on down, were committed believers in a strong state role in economic management. They further believed that this role had to exercised, in part, though the direct ownership of assets, rather the merely though regulatory control of the distribution of resources, as in Japan. (Kroeber 2020 p.120) "

However, after a few reforms, the network of cross-sharing property rights is still a problem: firm ownership today is even more blurred, especially if we look at management rights. Many public companies belong to more than one public institution and private owners can have a large or a small share. This differentiated status with market competition gave life to a multilayer company governance. "While initially the state shares were declared non-trasferrable to safeguard state's control of a company, state shares nevertheless changed hands since 1994. This happened in either over the counter or through direct negotiations in parallel markets, and often the share were discounted up to 80 percent of their market price. The 2005 share conversion programme also helped to make state owned share more tradable and together they led to accelerate decline of state ownership in the old SOE sector (Chai 2011 p.170)."

If there is not a clear distinction between who have the right to decide goals and to control achievements and who is untrusted to manager those assets, it is easy that there will be exchanges among them. If we also consider that almost all people who are in charge are also members of the Party, we understand that bargaining is the main way to get along. Inside any public administration like in any public firm there is a Party cell that gives advices and keeps the links with upper levels. It is not very different in Private Owned Enterprises (POE). Many of them can do business thanks to public grants, to public banks, to public concessions or to public authorization. Many entrepreneurs and managers are party members. So they are very careful in keeping good relationships with Party or State officials. That's why Milhaupt and Zheng conclude their paper (2015) stating that "There is less State control over SOEs and greater State control over POEs than is commonly assumed."

Minxin Pei states that privatization of management rights while property right has been kept in public hands is the main cause of corruption. Administrative decentralization gave a lot of resources to exchange among managers and local politicians. "Local political élites can collude to steal the assets of the state in the

privatization program. Through the abuse of the newly granted discretionary authority, they can extract payments for government services that should be provided for free, thus effectively running an extortionist state (Pei 2016 p.17).”

Even if property rights have been better defined by law in 2007, the distinction between owners and managers is difficult in a share governance. For example one of the world’s leading technology company, Huawei, on paper is owned at 96,7% by its employees, while its Ceo, Ren Zhengfei, only owns 1,14% (Huawei 2020). More precisely the majority of share belongs to the Union of Huawei Investment and Holdings, so if one employee leaves the company he must give back his shares. “This is Huawei’s labor union, Mr. Jiang said on Thursday, and it owns most of the company purely out of legal convenience. Under Chinese law, only certain kinds of entities can be the registered owners of a closely held company, and a labor union is one of them (Zhong 2019).” This explanation was given by Huawei after Ren’s daughter was put under arrest in Canada blamed for breaking Us sanctions against Iran. As an American newspaper puts: “China’s government exerts control over the country’s private businesses in many ways, some of them unofficial and never disclosed. Huawei executives have said repeatedly that they do not act on Beijing’s behalf. But absent the kind of constant, independent scrutiny that a publicly listed company would face, outsiders can only decide whether to take Huawei’s word for it (Zhong 2019).”

Many managers of private companies do what they can (for example they exchange shares) in order to make the firm look as public owned. That's because public undertakings have tax advantages and a better access to credit with Chinese banks. Otherwise “Chinese private firms succeed, in part, by obtaining a special deal from a local political leader which enables them to either break the formal rules or obtain favourable access to resources. The prevalence of special deals is common in countries with poor formal institutions, and China is not different (Chong En Bai 2019 p3).”

The Network Hierarchy that rules Chinese Economy

"We call the organizational structure of Chinese state capitalism a networked hierarchy. This term captures a chief characteristic of the Chinese scheme of industrial organization: vertically integrated corporate groups organized under SASAC¹², strategically linked to other business groups—as well as to governmental organs and state institutions, such as universities—enmeshed in a helical personnel-appointment process of rotations managed jointly by the Communist Party and SASAC. (...) These hierarchical structures are embedded in dense networks—not only of other firms, but also of party and government organs. These networks appear to facilitate information flow from the bottom up as well as from the top down. They foster relational exchange and collaboration on many levels of the production and policy-implementation processes. And they provide high-powered incentives to leaders within the system, because success in business leads to promotion and accompanying rewards in the political realm, and vice versa. (Li-Wen Lin & Curtis J. Milhaupt 2013 p.707)" According to these scholars, this highly complex network of actors, bringing different interests at stake, can work when it is framed in what Mancur Olson named an “encompassing organization” (Olson 1982) This is a collaboration among persons that produces collective goods from which they can gain. "Any individual who has an autocratic control over a country will provide public goods to that country and has an 'encompassing interest in it'. The extent of the encompassing interest of an office- holder, political party, interest group, monarch, or any other partial or total 'owner' of a society varies with the size of the stake in the society. The larger or more encompassing is the stake that an organization or individual has in a society, the greater is the incentive the organization or individual has to take action to provide public goods for that society. (Olson 1993 p.572)" Olson warns the reader about the risk that autocratic extraction of resources (through taxation or appropriation) will be higher than in the case of a democratic rule. Very probably encompassing network alliances can be socially sustainable as long as an economy keep on growing for the majority of people. In the Chinese case the problem could come if politicians are captured by interests of managers of state companies while the large share of private business suffers a lack of representation. The party is aware of this risk and that's why in the last twenty years it held a strategy to include private business in its representative function. This takes three main directions. The first is to help private firms when party member workers see that the business is not running well. Party can play a role in workers selection too. It is said that best workers are also party member because both are hardworkers with good skills. Party is also able –sometimes through party unions- to mediate between workers and managers. The second direction is the involvement of private entrepreneurs in Party building calling them to

¹²State-owned Assets Supervision and Administration Commission of Government

work inside the Party in more or less prestigious positions. There are private entrepreneurs in local, provincial and national committees, as party member or as guests. The third direction is the pressure on every private firm to host a cell of the party. This presence must not be perceived as hostile. In a Standing Politburo Committee of 2012 Xi Jinping told that "Party building in private enterprises cannot be conducted without consideration of production and business activities. It should be carried out around the central missions of enterprises and be conducive to business development. (Xiaojun Yan and Jie Huang 2017 p.53)"

Yet Party presence inside private firms is problematic. The first problem is that many Party cells are formally constituted but they are not really working. The second is that many of these cells are dominated by the families of the entrepreneurs who often are the secretaries. The third problem is that, according to some survey, the vast majority of entrepreneurs consider the Party cells as irrelevant in the company governance. If they are wealthy and powerful they just try to have direct access to Party Institution to get favourable decisions. So the conclusion is that "although this business-oriented party building has indeed made the CCP more relevant to private business development and thus increased its organizational presence, it remains unclear whether these efforts have genuinely strengthened the Communist Party's control of the private sector. (Xiaojun Yan and Jie Huang 2017 p.37)

Party-State administrative capacity and arbitrary power

According to Chong En Bai (2019) there are three reasons of the widespread collusion between politicians and businessmen. The first is "enormous administrative capacity" of Chinese local governments that interfere with any kind of business. The second is that political leaders have political gains if they appear capable of making private businesses flourish, the third is that local governments compete ferociously among them to attract and support business.

In western literature of public administration great administrative capacity is usually associated with a Weberian state, that is a bureaucracy with clear lines of accountability and rational division of power. In China poor formality of institutions and 'enormous administrative capacity' are two faces of the same coin. How is that possible?

In ancient China the powerful bureaucracy had a large arbitrary power in China. A few thousand of powerful officials were in charge of administrating of a huge Empire. They were not on a payroll so they were entrusted to gain money by themselves thanks to public concessions like the exercise of justice (which, in a confucian country, means to facilitate agreements). Officials had to exercise a local patronage. Emperors hired a corps of inspectors to limit the power of ordinary officials while hundreds of eunuchs were a staff directly depending on the Emperors.

Democratic Centralism of the Communist Party has some similarity to this model. National leaders have their trustworthy officials but PCC in Beijing is not able to really control the abuse of power of local leaders. Xi Jinping started his top office in 2012 with a large crusade against corruption. It was a way to consolidate its power but was also an effective consent campaign. Popular revolts against power abuses and corruption have a long history in China. A better democratic accountability could limit abuse of power. There have been some experiment to put some competition inside the single party lists at some election at local level (Almen 2016). The problem is that open and public competition could undermine the internal cohesion of Party in which there are already fights to gain power. That's why inclusiveness of the Party depends on the ability of its leadership at all levels to take inside the people that could erode its power from outside. This inclusiveness can become collusive behaviour.

What have been puzzling western scholars in front of Chinese endless economic boom is that a country ruled by a single party regime, where formal enforcement of law is weak and political discretion and corruption are spread, should be condemned to a poor fate by what Acemoglu and Robinson call "extractive economic institutions (Acemoglu 2012)".

Paul Clifford, an American business advisor who has been working in China many years, tells about a great chaos of governance in SOEs that he could see when China was in the middle of the boom. He writes that Chinese Government in the 90s was aware of the need of putting some order to make clear who was the owner of a company (Clifford 2017). Clifford states that "The China paradox has emerged as a Hybrid model of spontaneous economic activity and bureaucracy guidance. (The CCP) had managed the mixed economy effectively, achieved smooth political succession and allowed civil society some space to grow. (...) The CCP looks less like the architect of a new order that can stand the test of time (Clifford 2017 p.198)." He sees in the centrifugal tendencies of the local governments and companies a threat that is pressing Xi Jinping to concentrate

power in few CCP hands and so to drain the spontaneous ferment that is the base of the economic boom. If we look at history of China, this pendulum between decentralization and centralization seems to be the fate of the country. We could also think that the single party regime is not so fixed and closed as the harsher critics say, as long as there is a competition among local party/government and local/national élites that brings a real discussion on the policy making arena.

An Harmonious Socialist Society doesn't need the Rule of Law

Chinese tradition is not in favour of a development of a pervasive judiciary system independent from political power. Harmony is the highest value of Chinese culture. Through the thousands of years of Chinese history, Chinese society has held harmony as the ideal in dispute resolution. When adjudicating disputes, ancient officials focused on avoiding lawsuits and settling arguments through mediation (Beydon 2015). They strove to achieve the Confucian utopia of "a society without lawsuits."

There was no separation between the executive and the judiciary. For example, the county magistrate was both the chief administrator and the judge for the region. There was no division between the judicial system and the administrative supervisory system. Higher officials were responsible for supervising the conduct of local officials and also hearing appeal cases in law. There was no division between the judiciary and police, and the same officials could exercise both functions at the same time.

Civil disputes, such as those relating to the land and to family matters, were usually resolved informally through a mediation that was conducted by respective leaders or elders of clans, villages and guilds in accordance with customary rules with the prevailing notions of morality. This method discouraged litigation and pursuit of self-interest. Individual rights had much less attention than collective, group or social rights. There was no idea of an individual "habeas corpus".

In the time of the Socialist Revolution the tradition of social mediation was inherited by local party leaders. The general judiciary, necessary in urban great disputes, was inspired by the soviet model: inquisitorial e politically biased.

So we are not surprised to learn that "administrative influences seem however to be the preferred governance tools by the ruling élite of recent years, in accordance with the doctrine of a 'harmonious socialist society' with prevalence over the 'state governed according to the law'. The Chinese legal system of today is not a socialist monolith, featuring instead a number of different sub-systems or specific legal environments, with specific features and designated areas of effect (territorial areas, as in the case of Special Administrative Regions or Economic Zones; or specific areas of human activity, such as the market economy" (Castellucci 2012 p.110).

What is at stake is that market regulation needs a rule of law when contracts and deals are among persons who have almost nothing in common and maybe never meet. That's why with huge growth of China market players the need for a framework of common rules administered by independent officials is favoring new legislation and implementation.

A Public Administration that relies on personal initiative and competition

As Western Imperial Powers came to Asia they were seen by ruling class as champions of state strength. Who went on the path of modernization took their military and civil organization as an example of rationality. The famous Japanese MITI (Ministry of Trade and Industry) is a typical Weberian solution of public administration: a specialized bureaucracy staffed with high skilled officials selected from the best universities of the country. "these agencies had combined Weberian coherence and discipline with collaborative state-business relationship, properly captured in the label 'embedded autonomy'" (Yuen Yuen 2016 pos.762) Similar decisions were made in Singapore and Korea in order to attract foreign capitals. China, in its strategy towards market economy, did not decided to make Weberian reforms. Yuen Yuen research and interviews in a quite poor province (Jiangxi) found out a strategy that was not designed in order to achieve the specialization of the staff with high skills that are supposed to be necessary to have success on market capital in the promotion of economic development. "All party and state offices, regardless of nominally assigned functions, are required and reworded for participating in courting investors. Each agency has to perform its normal function (e.g. environment protection, law enforcement, personnel management and so on) but at the same time they are all enlisted to prospect for investors for their home states" (Yuen Yuen 2016 pos.798). Yuen Yuen found out that targets were assigned at all local levels, from county, to township and districts, and inside each level every office was asked to court investors. Single officials were pressed to active their social links. The social resource

that has been most exploited is Guanxi. Guanxi is a feature of the traditional Chinese culture. It is the networks of personal relationships that every person builds during his lifetime. It is the bulk of family links, friendships, professional meeting and exchanges. A link with another person could be at the same time a field of mutual interest and a natural sympathy. Each person is in the centre of the circles of many relationships and Guanxi is the social capital that he/she can activate in case of need.¹³ In Italy a similar concept, familism, has been associated by some scholars with the underdevelopment of a backward society in the South (Banfield 1958). Markets embedded in a capitalistic society, in the weberian view, need labour division, specialization, de-personification. Commodification is also a way of de-personification (Polanyi 1944). In this society the rule of law is an automatic application of rights to individual cases that is expected to be neutral vis à vis the social role of a single person. "The Chinese method of investment promotion fuses private and public spheres, it is deliberately not impersonal" (Yuen Yuen 2016 pos.802). Public officers are invited to use their own social networks to ask people who work outside the province to bring money in. According to her interviews there is not a clear distinction between state officials and party officials, because, as we said, they are two faces of the same coin. This overlapping is not just in fact, but also in law.

In Jiangxi province bonuses for individual brokerage may reach up to 5% of the value of realized investment, which can be a huge sum. "The potential size of these performance-based commissions completely overshadows the official wages of civil servants, usually less than two thousand yuan per month" (Yuen Yuen pos.862).¹⁴ If a person knows that such a large prize is at stake he/she will be tempted to use any kind of help to achieve the goal. So economic growth has been persecuted at the risk of fueling any kind of corrupt exchange. A bureaucrat interviewed stresses one more point: "Officials and bosses are closely embedded with each other, and gradually this relationship will produce plenty of greasy."¹⁵ If the boundaries between party and state are not clear, also market and state are clearly separated.

Another unintended consequence of this method is the undervaluation of other goals of the public agencies involved. Environmental, urban or labour regulation are easily put in second place after the main goal of draining resources that can drip in many corners.

However China seems to be learning from this experience. While this marketization of capital capture was still in place in poor counties, in the richer ones in 2016 it was going to be overtook. Interviews in Fujian show a growing degree of institutionalization and specialization of investment governance. A good example are the steps towards specialized regulation in the financial system.

The Socialist Regulation State in financial market

"Just five years ago no analysis of finance in China was complete without a detailed look at shadow banking. Formal banks were too strictly controlled to satisfy borrowing needs in the fast-growing economy. (...) Banks, despite their conservative exterior, had a big hand in shadow financing. They got around caps on deposit rates by funnelling savings into opaque "wealth-management products", a chunk of which flowed through the shadow firms. Some of these products offered yields of over 10%. (The economist 2021a) "

If shadow banking was useful to boost an economy and the beginning of its boom, now Chinese Government has decided to give more strict rules to financial operators, the public or the private ones, like we saw in the case of Jack Ma, founder of the trade platform Ali Baba. Now "the State sets rigid parameters around its markets. This is felt most acutely in foreign-exchange trading because of China's careful management of the yuan. Though it is now easier for investors to move money across borders, they still face a host of rules once in China. (The economist 2021a) "

Even if financial markets have grown a lot. People love to play with hedge funds and stockmarkets. "Retail investors still make up about 80% of average daily trading volume in the stockmarket; in America, even with the much ballyhooed rise in day trading, they account for just about a quarter. (The economist 2021a)" Institutional funds holds half of all shares and while a few years ago political authorities worried about letting foreign investors buying Chinese assets, now they are opening markets to them. Chinese actors are now more professional and more self confident.

¹³Fei Xiaotong From the Soil. The Foundations of Chinese Society. University of California Press. 1992

¹⁴Yuen Yuen Ang How china Escape Poverty Trap. Cornell Studies in Political Economy, 2016, pos.862, two thousand yuan are about three hundred dollars.

¹⁵Yuen Yuen Ang How china Escape Poverty Trap. Cornell Studies in Political Economy, 2016, pos.868

Market regulation has changed on digital services too. At the beginning of this century, markets have been allowed to grow without many limits and public money has been spent to support companies' growth. It was a way of pursuing two goals: closing the technology gap with western countries and creating relevant Chinese players. Both goals seem to be reached: now there are huge players on the technological frontier. Recently Chinese State has begun to tighten the limits of regulation with visible initiatives. The first was on 3rd November 2020 when state financial regulators stopped the initial public offering (IPO) of Ant Group the consumer credit financial arm of Alibaba -- the Chinese equivalent of Amazon -- which was ready to ask some 34 billion dollars on Shanghai and Hong Kong financial markets. Considering that Alibaba's capitalization was already over six hundred billions of dollars a stronger position on the market of retail and consumer credit would have worried also a western antitrust authority. Still, many western newspapers linked this as a public penalty to Jack Ma, the founder of Alibaba, who had criticized what he called an overregulation of financial markets made by Chinese authority. Jack Ma is maybe the most famous self made man in China, a symbol of the Chinese Dream of social mobility. Jack Ma's criticisms on "old style financial regulation" are more probably the consequences rather than the causes of authority decisions that he already knew.

Since the Communist Party started the marketization of Chinese economy it had to worry about the growing social inequality that has been rising time by time. "A growing number of people in China seem to feel the opportunities that people like Mr. Ma enjoyed are disappearing, even amid China's post-coronavirus surge. While China has more billionaires than the United States and India combined, about 600 million of its people earn \$150 a month or less. While consumption in the first 11 months of this year fell about 5 percent nationally, China's luxury consumption is expected to grow nearly 50 percent this year compared with 2019. (Li Yuan 2020)"

A second sign of the change in digital market regulation was given by the other Digital Tycoon, the almost homonym, Pony Ma, who on march 2021 called for a stricter regulation over the market that is business filed of his empire.¹⁶ Usually entrepreneurs don't call for more regulation but Mr. Ma seems to believe that prevention is better than cure. There were already signs on the air. A Chinese newsagency had interviewed Li Qing, former vice-director of the Antitrust Bureau of Chinese State, who stated clearly that anti-monopoly legislation is in favour of the economic growth and consumer protection. "Anti-monopoly law enforcement is highly professional, and there are still some theoretically different views on the oversight of Internet platform companies. However, an effective allocation of all regulatory resources and a phased approach can gradually form a consensus and resolve the competition of the internet platform. (Hou Runfang 2021)"

Li Qing confirms the hypothesis of western journalists about a change of strategy from laissez faire to market regulation. "After years of tolerating big tech's unbridled expansion, the central government is rewriting the rules, some tacit and some explicit, for how billionaires can behave, the degree of overt state control over data, and who owns the firms' other assets, including stakes in other businesses. This new master plan for Chinese big tech will transform one of the world's most innovative and valuable industries. (The Economist 2021b)"

Alibaba was hit by an antitrust penalty of 2,8 billions dollars. The Authority made an investigation about abuse of dominant position of the Internet Giant which was found guilty of putting barriers to the freedom of the business sellers on its platform.

The official newspaper of the Chinese Communist Party explained: "“Monopoly is the great enemy of the market economy,” the commentary read. “There is no contradiction between regulating under the law and supporting development. Rather, they complement each other and are mutually reinforcing. (Zhong 2021)"

Conclusions

We think the account brings enough evidence of the fact that China's miraculous growth was not the result of a miracle. The communist educated ruling class decided to pursue economic growth with a progressive widening of market economy at the expense of planned economy. To achieve this goal they took from western knowledge only what seemed useful to them. As Arrighi wrote, they read carefully Adam Smith. Competition was spread not only on service and goods production but even inside and among public administrations at all levels to increase their productivity. The low level of legal formalization of public institutions in this case was played as an advantage. The Networked Hierarchy who now rules the country showed great learning ability and pragmatic flexibility. The strategy was a gradual opening to the market economy keeping public property of

¹⁶Tencent and Pinduoduo capitalize more than 700 billions dollars.

strategic assets on one hand and developing regulatory institutions on the other hand. They also took the risk of a limited opening at foreign capitals in order to gain in a few years the technology and the skills that were necessary to modernize the country in a few decades. Hundreds of thousands of Chinese students went to study in western university, mostly in US. The strategy worked but they also had to pay big prices. The highest price was a dramatic increase of inequality that brought social envy, a threat to legitimation of a Party that still calls itself communist. The new paradigm, the socialism with Chinese Characteristic is an experimental and step-by-step mix of market competition, state property and state regulation. Party documents say that this is a transitional period the will bring full socialism in 2049. The basic idea is that socialism is compatible with market when market is useful to bring welfare, innovation, technology, and a better life for the majority of people. Party-State intervenes on the market as a player and as a regulator. If beside this scheme there were individual rights we could speak of a social democrat model. But these rights have no roots in China's history. Social rights are relevant mostly at local level where there is some kind of accountability. Enterprises governance is complex among private players and many different public actors. The overlap between politics and business create a circle of privileged people. Cronyism is largely widespread while the growing inequality between common people and a new class of super-rich people is striking. Market freedom, individual initiative and powerful enterprises at local or national levels foster centrifugal forces that are counter-balanced by a concentration of power of the new leadership in Beijing. The Socialism with Chinese Characteristic has the need to combine the economic pluralism of a market society with the undisputed hegemony of a single party rule.

Bibliography

- [1]. Acemoglu D. Robinson J. Why nations Fail. The origins of Power, Prosperity and Poverty. Crown 2012
- [2]. Almen O. Local Elections in China. Argang 6, September 2003.
- [3]. Arrighi G. Adam Smith in Beijing. Lineages of the twenty-first century. Verso, 2007, p.368
- [4]. Banfield E.C. The moral Basis of Backward Society, Free Press 1958
- [5]. Bibliografia Market Socialism
- [6]. Besley T. and Ghatak M., Property Rights and Economic Development. In D. Rodrik and M. Rosenzweig, editors: Handbook of Development Economics, Vol. 5, The Netherlands: North- Holland, 2010
- [7]. Beydon O. Introduction à la pensée juridique chinoise. Bruxelles, Larcier, 2015
- [8]. Castellucci I. Rule of Law and Legal Complexity in the People's Republic of China. Trento University Press, 2012.
- [9]. Chai J.C.H. An Economy History of Modern China. Elgar Publishing 2011
- [10]. Cheng A. Histoire de la pensée chinoise, Paris Seuil, 1997
- [11]. Chong En Bai, Chang Tai Hesieh, Zheng Michael Song, Special deals with Chinese Characteristic. Becker Friedman Institute WP, Chicago, 2019
- [12]. Clifford P. The China Paradox. At the Front Line of Economic Transformation. De G Press. 2017
- [13]. Coase R. and Ning Wang How China became capitalist. McMillan 2012. From Italian translation Come la Cina è diventata capitalista. IBL Inri, 2014
- [14]. Dallmayr F. Zhao Tingyang Contemporary Chinese Political Thought, <https://play.google.com/store/books/details?id=JdBhLeJvO5AC>
- [15]. De Vos N. Lebrun R. Mignolet L. Van Lindthoudt S. Explaining the various aspects of the control of central government, and especially the Emperor, in Confucian Chinese Thinking, especially referring to the concept of "Mandate of Heaven", Working Papers Université Catholique de Lovain, 2014
- [16]. Facchini G, Lyu M. Y., Maria Mayda, Zhou M. "China's Great Migration. The Impact of Reduction in Trade Policy Uncertainty. IZA Institute of Labor Economics. 2018.
- [17]. Franceschini I. lavoro e diritti in Cina. Il Mulino, 2016
- [18]. Harari Y. N. 21 lessons for the 21st Century, Random House 2018
- [19]. Hou Runfang Li Qing: Adottare un metodo di supervisione graduale per risolvere il problema della concorrenza della piattaforma Internet, Beijing News 06/01/2021, Italian Google Translation from chinese.
- [20]. Huawei: Our Company. 2020 <https://www.huawei.com/en/facts/question-answer/who-owns>
- [21]. Huayu Xhu The long-term health and economic consequences of improved property rights, Journal of Public Economics, 201/2021

- [22]. Hui Wang Depoliticized Politics from East to West. *New Left Review*, II/41 2006 Quoted in Arrighi 2007
- [23]. Jiahao Zhang Analysis on the Impact of the Foreign Exchange Reserves of China on Its Macro Economy, *E3S Web of Conferences* 233, 2021
- [24]. Jae Ho Chung *Centrifugal Empire: Central-Local Relations in China*, Columbia University Press 2016
- [25]. Kroeber A.R. *China's Economy. What Everyone needs to know*. Oxford University Press, 2020
- [26]. Li Cheng. From Selection to Election. Experiments in the Recruitment of Chinese Political Elite. *China Leadership Monitor*, n.26, 2016
- [27]. Li Yuan Why China Turned Against Jack Ma, *New York Times* 24th December 2020
- [28]. Li-Wen Lin & Curtis J. Milhaupt We are the (national) Champions. *Understanding State Capitalism in China*. *Stanford Law Review* 2013 Vol. 65, Issue 4 https://edisciplinas.usp.br/pluginfile.php/106856/mod_resource/content/1/DCO0318_-_Aula_8_-_Lin_e_Milhaupt.pdf
- [29]. Liqun Deng, Ma Hong, Sun Shangqing and Wu Jiaju. *Fung Ri Gui Lai de Shi Shuo Reflections after a visit to Japan*, Beijing, China Social Science Press, 1979. Quoted in Coase and Ning Wang, cit. 2014. P75
- [30]. Mao Zedong On Ten Major Relationships, First published on april 25th 1956. https://www.marxists.org/reference/archive/mao/selected-works/volume-5/mswv5_51.htm
- [31]. Milhaupt C.J. Zheng Wentong Beyond Ownership: State Capitalism and the Chinese Firm. *Georgetown Law Journal*, N.103, 2015 pp.665-722
- [32]. Minxin Pei, *China's Crony Capitalism. The Dynamics of Regime Decay*. Harvard University Press 2016
- [33]. Morrison W.M. *China's currency: An Analysis of the Economic Issues*, Washington Congressional Research Service 2010
- [34]. North D.C. *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, 1990. Italian translation *Istituzioni, cambiamento istituzionale, evoluzione dell'economia*, Bologna, Il Mulino, 1994.
- [35]. Olson M. *The Rise and Decline of nations: Economic Growth, Stagflation and social rigidities*, Yale University Press, 1982
- [36]. Olson M. Dictatorship, Democracy, and Development, *The American Political Science Review*, Vol. 87, No. 3 (Sep., 1993), pp. 567-576
- [37]. Polanyi K. *Origins of Our Time. The Great Transformation*. Farran & Rinehart, 1944.
- [38]. Saramani G. *La Cina del Novecento: dalla fine dell'Impero ad oggi*. Torino, Einaudi, 2017, kindle edition
- [39]. Shell O. *To get Rich is Glorious. China in 80s*. Pantheon, 1984
- [40]. Scharpf, F.W. (1999), *Governing in Europe: Effective and Democratic?*, Oxford: Oxford University
- [41]. *The Economist* The Plight of Left Behind Children. Some 31m live apart from parents, who have moved for work in cities. April 8th 2021
- [42]. *The Economist*. Over the great wall China's markets are shaking off their casino reputation. March 18th 2021a
- [43]. *The Economist*: An uncertain new path, April 10th 2021b
- [44]. Tiejun Cheng and Mark Selden *The Origins and Social Consequences of China's Hukou System* *The China Quarterly* No. 139 (Sep., 1994), pp. 644-668
- [45]. United Nations (UN) and International Labour Organization (ILO) *Research on Coordination and Implementation of the Social protection Systems in China*. UN-ILO 2020
- [46]. Wei Li and Dennis Tao Yang *The Great Leap Forward. Anatomy of a Central Planning Disaster*. *Journal of Political Economy*, vol 113, N.4, 2005
- [47]. Wikipedia household responsibility system, 2021
- [48]. Wing Thyee Woo *The Economics and Politics of Transition to an Open Market Economy: China*. OECD, CD/DOC(99)10 1999.
- [49]. Williamson J. *The Washington Consensus and Beyond*, *Economic and Political Weekly* , Apr. 12- 18, 2003, Vol. 38, No. 15
- [50]. World Bank *China's Special Economic Zones*. 2017 <https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing%20in%20Africa%20Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf>
- [51]. Milhaupt C.J. Wentong Zheng: Beyond Ownership: State Capitalism and the Chinese Firms. 103 *Geo. L.J.* 665 (2014-2015)
-

- [52]. https://heinonline.org/HOL/Page?handle=hein.journals/glj103&div=22&g_sent=1&casa_token=msHEYBCJKn8AAA-AA:1kW6u1wroDUiJGETAXuvnFqAr_rbb14HX3XmAmXhJcL2Ox_li>If-FOqISgyII46SKRs3hlT&collection=journals
- [53]. Xiaojun Yan and Jie Huang *China Review* , June 2017, Vol. 17, No. 2, Special Issue: Evolving State-Society Relations in China (June 2017), pp. 37-63
- [54]. Xu Hongzhi and Qin Xuan *Basics of the Theoretical System of Socialism with Chinese Characteristics*, canut, UK, 2011
- [55]. Yifu Lin J. *The Household Responsibility System in China's Agricultural Reform: A Theoretical and Empirical Study in Economic Development and Cultural Change* Vol. 36, No. 3, Supplement: Why Does Overcrowded, Resource-Poor East Asia Succeed: Lessons for the LDCs? (Apr., 1988), pp. S199-S224
- [56]. Yongnian Zheng, *De Facto Federalism in China. Dynamics of Central-Local Relations*. World Scientific, 2008
- [57]. Youngmin Kim *A History of Chinese Political Thought*, Cambridge, Polity, 2018
- [58]. Yuen Yuen Ang *How china Escape Poverty Trap*. Cornell Studies in Political Economy, Kindle edition, 2016
- [59]. Zhang Ming'ai, *China.org.cn* January 19, 2008 http://www.china.org.cn/2008-01/19/content_1240036.htm
- [60]. Zhong R. Who owns Huawei? The Company Tried to explain. It got Complicated. *New York Times*, April 25th 2019.
- [61]. Zhong R. China Fines Alibaba \$2.8 Billion in Landmark Antitrust Case. *New York Times* April 9th 2021