Institutions, Liberalism, and Rent Seeking as Sources of Economic Development in China

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Old Chinese Proverb: *If you have money you can make the devil push your grindstone.*

I. On the Political Economy of Economic and Political Liberalism in China after Mao

China has been one of the most interesting places on Earth for most of the past 3,000 years. China was one of the three or four so-called cradles of civilization. Among its inventions was a form of imperial government that survived for two thousand years with minor lapses until 1900. In the late nineteenth century and first half of the twentieth century, China experienced a series of civil wars, invasions, and revolutions, none of which were good for its economic growth or political continuity. The last of these wars was a civil war won by Mao Zedong, after which a Communist form of government was installed, which set out to destroy what was left of China's ancient culture and economy.

After Mao Zedong's death in 1976, China experienced a peaceful "revolution," which launched it on a path of rapid economic development. Three relatively liberal leaders took charge of the Chinese government in the late 1970s and early 1980s. They introduced a series of reforms of China's political and economic and institutions in a manner that had lasting effects on the course of Chinese public policy. As a consequence, China became a major trading nation with major effects on much of the world's economy.

This paper explores the political economy of Chinese reform, with the aim of understanding how and why the policies that produced that growth came to be adopted. This paper argues that ideology, institutions, and luck played important roles in China's process of political reform and economic development and are likely to do so in the future.

The government of the Peoples Republic of China (PRC) is based on the Soviet notion of democratic centralism, which vests a good deal of control over public policy in a handful of people. This allowed the new leaders to introduce a series of reforms after Mao's death that favored urban party leaders. Many of these reforms were liberal reforms that decentralized economic and policymaking authority. Decentralization of policymaking authority and economic decisionmaking, together with the economic growth induced by those reforms, produced the support necessary to sustain the liberal trends in economic and political reform.

The initial motivation for the reforms was evidently pragmatic, rather than ideological in nature. Both economic and political institutions were liberalized, but initially with the aim of solidifying the political support for the new government leaders. In the process, Deng Xiaoping, Hu Yaobang, and Zhao Ziyang produced a new Chinese version of "socialism" that allowed significant roles for decentralization and markets, much of which was codified in China's constitutional documents.[1]

The export-led development strategy adopted has broadly increased the economic and political liberty of the Chinese. That strategy also produced new incentives—new rules—for its rent-seeking games, which simultaneously aligned rents with economic development and also limited those rents by focusing economic development on the world's competitive international markets.

The paper is organized as follows: Section II provides an overview of models from public choice and constitutional political economy that can be used to analyze constitutional developments and policy reforms within more or less authoritarian regimes. Section III

1 Family names appear first and personal names second under the Chinese convention. Mao Zedong, Deng Xiaoping, Hu Yaobang, and Zhao Ziyang are therefore referred to as Mao, Deng, Hu, and Zhao throughout this paper. Contemporary romanizations of the Chinese names are used below, as best as these can be determined.

provides a short overview of Chinese governance prior to the period of reform. Section IV provides analyzes the period of reform after Mao's death in 1976. Section V summarizes the analysis and speculates about future developments. The appendix provides a short overview of Chinese history prior to the Communist victory in 1949 from the perspective of constitutional political economy.

Public choice serves as a lens through which Chinese history can be explored, and conversely, Chinese history provides evidence of the explanatory power of public choice models.

II. Public Choice Theories of Public Policy Formation and Constitutional Reform in Authoritarian Polities

A. Constitutional Political Economy of Governance

Both authoritarian and democratic national governments are normally based on the "king-and-council" template (Congleton 2001). This template divides policymaking authority between a single person (e.g., king, prime minister, premier, or president) and a committee of more or less equals (e.g., cabinet, council of state, or parliament). That structure solves a variety of information and secession problems and tends to be a robust template for governance, because authority over policy can divided between the king and the council in a nearly infinite number of ways. It also allows policymaking authority to be shifted between the king and council through a process of constitutional exchange. Within pure dictatorships, the council is often largely advisory and the king largely controls the development of public policy. Within parliamentary systems the "council" largely control the development of public policy. Within the most real-world forms of the king-and-council template, both the king and the council exercise significant control over public policy.[2]

2 See Congleton (2001, 2009) for discussions of the king and council template. Congleton (2009) shows how that model can be used to explain the rise of Western democracy. In the American context of the sixteenth and seventeenth centuries and in the European context of the late eighteenth and nineteenth centuries, a series of such constitutional bargains gradually shifted policymaking authority from the king to the council and grounded council membership (and the king) on elections with broad suffrage.

Both the last imperial dynasty (the Qing Dynasty, 1644–1912) and the contemporary republican government of mainland China (1949–present) used complex variations of the king-and-council template with a relatively strong "king" for much of their history. In imperial China the "king" was normally the emperor, although there were periods in which the state bureaucracy was headed by a prime minister with considerable authority. In contemporary China, the "king" is normally the chairman of the Chinese Communist Party.

The king-and-council template is scalable in the sense that it can be used as a form of government (policymaking body) for subdivisions of an organization and also for confederations and treaty organizations of independent organizations. In contemporary China, king-and-council templates are used at the provincial, city, and local levels of governance as well as national level. China, however, has often used a somewhat unusual form of king-and-council governance in which policymaking authority is divided between two or three parallel systems for making public policy. For example, in contemporary China there are state and party systems, rather than simple hierarchical system. Separate "kings" (premiers) exist for the state bureaucracy, for its Congress (the president), and for the military (the chairman of the military commission).

Constitutional Reform within King and Council Regimes

For many purposes, in king-dominated forms of king-and-council governance, it is convenient to model the government as expected utility maximizing choices by the king. For long run analysis, however, it is often useful to analyze how policymaking authority shifts back and forth between the king and the council, and between the central and regional governments. The distribution of policymaking authority often shifts through time as constitutional gains from exchange emerge. In such cases, bargaining among insiders can induce constitutional and quasi-constitutional reforms of the division of policymaking authority.

In most cases, the constitutional bargains worked out between the king and council and between the central and regional governments lack a clear trend, because the "shocks" that produce constitutional gains from trade (technology changes, external threats, and

changes in the leaders themselves) lack clear trends. Such periods bargains produce a random institutional walk in which power shifts back and forth between the king and council, as gains from trade emerge from more or less random internal and external shocks. In such periods, one reform tends to be undone by the next and so forth. In both imperial and contemporary China, however, there have been periods in which such bargaining favored decentralization, and during such periods policymaking authority peacefully shifted from the central to the regional governments. Moreover, in a country that successfully industrializes, there are normally liberal trends in economic and political policy reforms (Congleton 2009). This has been the case in China for the past three decades.

The terms of constitutional exchange naturally reflect the interests of the persons in positions of sufficient authority that they can actually adopt constitutional reforms. Personal interests, in turn, reflect (i) pragmatic interests in wealth and power, (ii) the institutional and cultural setting in which they act (which largely determine how one obtains wealth and power) and (iii) ideas and norms absorbed and refined during their lifetimes (which provide models of cause and effect and of the good life). Human nature is largely exogenous, but institutions, culture, and ideas change from time to time, and in some cases those changes produce opportunities for constitutional gains from trade.

Institutionally Induced Interests and Constitutional Conservatism

Institutions have significant effects on prospects for constitutional and policy reform, because they provide the "rules" (conditional incentive systems and property rights) through which personal wealth and authority can be increased. Formal organizations all have rules and conditional reward systems that create "artificial" interests for their members. It is such institutionally induced interests that allow economists to model firms and firm managers as "profit maximizers" and public choice economists to model candidates in elections as "vote maximizers." Authoritarian organizations normally include fairly strong incentives for deference to the "king" and to others further up the hierarchy, because such behavior is rewarded through a variety of conditional incentive systems (Tullock 1987, Wintrobe 2000). Such incentive systems are very evident in both imperial and contemporary China.

The conditional incentives for persons at and near the top of durable organizations, in turn, tend to align their interests with the survival of "their" organization. As a consequence, the persons who form an organization's top policymaking bodies normally have strong personal reasons to favor the continuation and strengthening of their organization(s).

The latter tends to produce "institutional conservatism" on the part of an organization's top officials, that is, a tendency to resist most reforms and protect the status quo. It is, after all, the organization's internal incentive and selection systems that allowed its leaders to rise to top positions. Moreover, most such persons will acknowledge that they do not fully understand exactly how their organization operates in all respects. This, in combination with a bit of risk aversion, also provides them with good reasons to favor the status quo over changes in institutional structure, and also to favor minor reforms over major ones.

This rational institutional conservatism helps to explain why even "authoritarian constitutions" tend to be stable through time and why the standing institutions of authoritarian systems normally outlive the persons who occupy the top positions. Such governments normally do not have significant formal barriers to amending their constitutions, such as tough amendment procedures. Rather they survive because they advance the interests of top officials. Durable organizations tend to reinforce such conservative propensities with internal cultures that further align member interests with the continuity of the organization. Governments often promote ideologies that tend to "enshrine" their organization's core reward structures, procedures, and policies. Confucianism served this role in imperial China. The sayings of Mao and Deng evidently serve similar roles in contemporary China, although their ideas appear to have had a weaker effect on stability than Confucian ones had.[3]

China's imperial government was remarkable for both its durability and the fact that its major institutions for governance (i.e., policymaking) remained in place for centuries at a

3 The preamble of the Chinese constitution explicitly states that governance is guided by "Marxist-Leninism and Mao Zedong Thought." To those approved ideologies, Deng Xiaoping Theory was formally added in 1999 (12th amendment) and the "Three Represents" (of Jiang Zemin) in 2004 (by the 18th amendment).

time (which is also true of European monarchies). China's contemporary government has also generally been stable, although its stated goals, standing policies, and procedures have been modestly revised several times. Its 1982 constitution has been amended 31 times through 2004.

B. Rent-Extraction and Encompassing Interests as Consequences of Institutions

One index of the survival prospect of governments, firms, and other organizations is the extent to which the control (net) resources. In ordinary firms, profits are such an index. In nonprofit organizations, the net size of the endowment provides a similar index. In authoritarian governments, the control over resources is partly a matter of tax revenue and partly a matter of the scope of its regulations. In durable organizations, senior managers have fairly strong incentives to maximize their organization's "net receipts." Mancur Olson (1993) has pointed out that such interests (and associated rent extraction) tend to give top government officials an encompassing interest in the prosperity of their territories.

The fact that the net income of senior government officials in authoritarian regimes tends to increase as their tax and regulatory base increases also provides senior central government officials with pragmatic reasons to adopt policies that increase economic growth rates. Such officials, consequently, provide law and order, public education, and infrastructure not because they are "public goods," but because this increases their political rents.

The extent of this encompassing interest depends partly on political institutions (standing procedures for making policy decisions and standing internal incentive systems) and partly on the external environment in which policy decisions are made.

Limits to the Encompassing Interests of Authoritarians

In most authoritarian regimes, this alignment is highly imperfect for several reasons.

First, taxation and rent extraction divert resources from their most productive uses. Profit maximizing governments naturally take more resources from a country's citizens than necessary to provide public services. The associated rents of high office tend to attract more

talent into the public sector in pursuit of those rents (i.e. higher than competitive salaries). As a consequence, economic income and growth rates are below their maximal levels and rates, although political profits are maximized (Tullock 1967; Ekelund and Tollision 1981; Murphy, Schleifer, and Vishny 1991). The partial residual claimant status of top government officials also provides them with reasons to create monopolies and other entry barriers that reduce economic growth, insofar as the central government gains control over resources from such policies. Such policies also reduce economic income, although well-run, rent-extracting governments take such effects into account (Congleton and Lee 2009).

Second, authoritarians have to maintain their authority, and conflicts sometimes exist between the general economic well-being of a state's residents and the security of the existing regime. Indeed, subgroups thought to pose security risks are often punished for undermining or threatening to undermine the security of the existing regime. Such behavior was evident in the Qing dynasty's ethnic discrimination and recrimination against revolutionary groups. It is also evident in contemporary China ideological discrimination and recrimination against revolutionary groups. In early days, hundreds of thousands of persons were killed in Mao's early efforts to suppress political dissent and additional ones in the Cultural Revolution a decade later. Dissent was also suppressed during the Tiananmen Square Demonstrations of 1989. Generally speaking, live opponents are more dangerous than dead ones, and rich opponents are more dangerous than poor ones.

Third, internal rent-seeking contests—corruption and competition for authority—can reduce both the political and national surplus. Unless rents are properly conditioned and constrained, a good deal of national resources can be consumed in rent-seeking activities. In the limit, such rent-seeking contests can consume essentially the entire national product (Congleton 1980, Hillman and Katz 1987).

In general, some institutions align the interests of government officials with their citizens better than others.[4]The reforms adopted after Mao's death in 1976 improved the alignment between the interests of national and regional leaders and economic prosperity

4 Authoritarian regimes, like firms, tend to be net-income maximizers, although income is not measured entirely in dollars. (Persons in high positions within authoritarian regimes can control resources in more ways than capitalists can.)

and growth. They did this in part by encouraging new avenues for rent seeking and corruption, and in part because the same reforms also bounded the extent to which resources would be consumed in rent-seeking contests.

C. Predicting the Direction of Policy and Constitutional Reform

In general, public choice and constitutional political economy predict that political and economic reforms tend to advance the interests of government officials with the authority to adopt reforms, although just exactly what those "interests" are and how particular policies may advance those interests is often unpredictable. To predict policy reforms requires predictions on how changes in interests affect policy choices, which requires a model of public policy formation for short-run analysis and a model of constitutional reform for long-run analysis.

In the nineteenth century, it could be said that a "natural" direction for reform emerged in China. Western institutions had recently been reformed in a manner that allowed new technologies to emerge and be widely adopted in the West. These new Western policial and economic institutions were considerably more open ones than those in China during the Qing dynasty (or in past Western history). They encouraged investments in the accumulation of technological and scientific human capital and adopted a variety of reforms and technologies to reduce the transaction costs of market exchange and political reform. It gradually became clear that China's long-standing institutions would have to change if it was to take advantage of the new technologies for economic production and military destruction developed in Europe and North America.

The Western experience suggested that that economic and political liberalization could help China catch up with the West (as it had in Japan). However, the Chinese leadership evidently could not find a way to adopt such reforms without undermining their own authority and wealth. In this respect at least, it is clear that the interests of the imperial government were not very well aligned with the long run interests of China or its residents. China's decline relative to the West caused support for the central government to fall within

China, and also provided military opportunities for those countries that had industrialized. As a result, a series of civil wars and wars of succession broke out.

III. The People's Republic of China

After nearly a half century of warfare, the Communist victors, perhaps surprisingly, faced essentially similar problems in 1949. After the previous republic's government retreated to Taiwan, a new People's Republic of China was created by Mao Zedong and his comrades at arms and governance. The winners of the Chinese civil war in 1949 were also republicans and also had Western theories and models in mind, although Soviet and Marxist ones, rather than Japanese or European ones. And, at first the new Communist government were no more able to catch up with the West than the last imperial regime had been.

The new rulers of China attempted to solidify their authority over mainland China and to press for the Marxist-Leninist vision of the good society with its strong central government and centralized economic planning. Mao proceeded to adapt the Manchu system of governance to his purposes. Again there was a parallel structure, but in this case it was based on ideology and loyalty to the party (and Mao), rather than Manchu noble heredity. Senior Communists replaced the Manchu throughout the government. The remaining bureaucrats were also for the most part replaced. Mao's political interests and vision of the good society required eliminating China's ancient imperial hierarchy, with its associated culture and customs and also its economic and intellectual elites.

It can also be argued that the new Chinese government's aim was not so different from that of the previous republic. It attempted to modernize and strengthen China, but it did so in a manner that substantially impoverished China. Elite families and their assets were obliterated, remaining intellectuals and technicians were punished, university examinations ended, and the government, military, and management of the economy centralized. Ancient Chinese and most Western political, economic, and philosophical work was repressed, and revolts in support of the long-standing Chinese way of life (and for more liberal ones)

suppressed.[5] Mao Zedong's version of communism replaced Confucianism as the state-approved (and mandated) ideology of China. Trade again essentially ended in the West (Lieberthal 2004: ch. 4, Naughton 2007: ch. 3).

A. Collectivization, Centralization, and Chinese Poverty

The lands of large property owners were initially transferred to peasants, and small farmers and small businesses continued to operate more or less as before. A few years later, however, family land ownership and control and most private markets were ended. Land ownership and management was vested in regional cooperatives run by members of the local Communist party. Industries were similarly organized into large regional and national cooperatives, managed by state bureaucrats and party officials.[6]

Explicit and implicit taxes in support of industrialization reduced most Chinese in rural areas to near or below subsistence levels of income. For example, an estimated 20–30 million persons starved between 1959 and 1962 as a consequence of Mao's "Great Leap Forward," a program to divert as much Chinese income to industrialization as possible (Wright 2001: 150–53).[7] Farm output also declined as a result of the large-scale communal farms and associated changes in farming practices (Naughton 2007: 70–73).[8]

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5 A half million "counter-revolutionaries" were rounded up and executed in the 1950s. There was a brief period in which free speech was encouraged in 1957, but this lasted only a few months, in large part because it unleashed so much criticism. Hundreds of thousands of those brave enough to criticize Mao's policies were sent off for extended periods of forced labor in the countryside or worse (Wright 2001: 149).

6 The farm and industry coops also provided a variety of services for their member-employees, including education and social insurance.

7 Naughton (2007: 57) notes the very high investment rates in China, which imply very high tax and transfer rates during this time.

8 Chinese statistics for the Maoist period show rapid economic growth, but these statistics have a number of problems. For example, costs are treated as income. Moreover, the numbers themselves are, if anything, more suspect than the Soviet ones of this period. Large-scale famines in the countryside imply that farmers (the majority of the country) lived at near subsistance levels during much of this period.

The result of three decades of "forced" industrialization was a further impoverishing of the typical Chinese family, at the same time that centrally managed heavy industries were established and the military was modernized. Indeed, a partial explanation for China's rapid growth rate after Mao Zedong's death in 1976 is simply that Chinese per capita income had fallen to such low levels that even small absolute increases in per capita income implied large growth rates. The smaller the denominator, the higher is the growth rate, other things being equal. The failure of Mao's reforms helped pave the way for significant policy reforms after Mao's death in 1976.

B. The Written and Unwritten Constitutions of the Peoples Republic

The organization of the central government is described in its constitutional documents for most of the PRC's history. These have been amended (modestly) several times. A formal constitution was adopted in 1954, which was substantially revised in 1975, 1978, and 1982.[9] These constitutions specify the architecture of government, its goals, and citizen rights and duties.

The formal architecture of the central government has been fairly stable during that period, with a premiere and a Council of State (cabinet of department leaders and senior officials).[10] A subset of this relatively large cabinet forms a standing committee, which includes the premier, four vice premiers, and five state councilors. These senior posts were initially populated by leaders from the civil war, including officials from the revolutionary army, party officials, and revolutionary government. Chou Enlai served as the People's Republic of China's first premier.

Formally, the Council of State is the agent of the National People's Congress (NPC), much as a modern parliamentary cabinet can be said to be an agent of parliament. The NPC is an elected, representative body with a broad range of authority (articles 62 and 63 of the 1982 constitution). The NPC has the power to make appointments to the cabinet, legislate

9 The revolutionary government had its roots in the early 1930s, when it ran several provinces in southern China.

10 I was not able to find translations of the first three constitutions, but have a copy of the 1982 constitution that I acquired while in China in 2006.

government policy, and adopt constitutional reforms. In practice, however, the National People's Congress has routinely deferred to the proposals of its own standing committee (presidium) and those of the Council of State.

The 3,000 members of the NPC are for the most part elected by lower levels of government. The candidates for the NPC are selected by the previous year's NPC's standing committee, and so they consist for the most part of loyal regional and major city party officials. Election law requires that there be from 20 to 50 percent more candidates than there are seats in the assembly. The regional and city assemblies are similarly elected by the next lowest (local) assembly from candidate lists of their respective parliamentary presidiums. Only the lowest level of government is directly elected by voters, rather than by elected officials. About 550 of the 3,000 seats of the National People's Congress are appointed by the army and the Council of State (Fengchun 2004: 105–108).[11]

This fairly modern-looking government adopts legislation, runs the bureaucracy, and makes both long- and short-term policy decisions. The ability of particular persons to assemble majority coalitions within the Parliament and Council of State clearly play important roles in the conduct of Chinese public policy and in the selection and tenure of senior officials.

C. Parallel Governance by the Chinese Communist Party

The government is, however, not the only standing institutional arrangement for making public policy decisions in mainland China. As in Manchu and Han China, another parallel system of policymaking and influence exists, one that is mentioned only in passing in China's constitutional documents.[12]

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11 Note that if seat holders at each level of government aspire to seats in higher levels, they have good reasons to defer to the presidiums of the assemblies above them. This gives the presidium and president of the National People's Congress indirect, but substantial control over the provincial and local-level Congresses, although each level is constitutionally free to cast its votes as it wishes and the election law encourages modest competition. See Diamond and Myers (2000) for overviews and critical analyses of village-level elections.

12 The preamble of the constitution reserves the leadership role to the Communist Party.

Alongside the state's administrative system for policymaking and implementation is the Chinese Communist Party (CCP). The party's formal organization has an architecture similar to that of the government. It has a chairman and a politburo (with a standing committee and a Communist Party Congress. The party congress has responsibilities that are formally similar the National People's Congress, including election of party leaders and voting on party doctrines. Again, there is a history of considerable deference to party leaders, which is partly a consequence of its hierarchical administrative structure and the logic of "democratic centralism." Again the ability to assemble coalitions within the politburo and Congress have significant effects on the selection and tenure of senior party officials and on the party's rules.

The Chinese Communist Party's leadership exercises considerable control over the government through its rules for party members, the overlapping membership of the state council and party politburo, control over the army, and indirect control over the nomination process for government positions. The PRC is essentially a one-party state, so most members of the Council of State and Presidium (standing committee of the PNC) are also high officials in the Communist Party. Most government officials are party members and are supposed to follow the party's rules and doctrine.[13] Most seats on the local, regional, and national presidiums (standing committees) are held by loyal members of the Chinese Communist Party. This gives the party essentially complete control over the candidate slates for the various regional parliaments. (Loyal non-Communists are included on the candidate

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The 1982 preamble states that "Under the leadership of the Communist Party of China and the guidance of Marxist Leninism and Mao Zedong Thought, the Chinese people of all ethnic groups will continue to adhere to the peoples democratic dictatorship and the socialist road, steadily improve socialist institutions, develop socialist democracy, improve the socialist legal system, and work hard and self-reliantly to modernize the country's agriculture, national defense, and science and technology step-by-step to turn China into a socialist country with a high level of culture and democracy." "Deng Xiaoping theory" was added to the list of acceptable ideologies by the 12th amendment in 1999.

13 There are about 75 million members of the CCP, about 10 percent of the adult population.

lists, and a few are selected for office, but the majority of candidates are members of the CCP in good standing.[14]).

Indeed, it has been suggested that, in practice, the party makes all policy decisions and the government simply implements those decisions. Mao Zedong was the first chairman of the Chinese Communist Party.[15]

The third leg of the Chinese government is the People's Liberation Army, which defeated the republic's army in the civil war. It is formally under the control of the CCP, but has its own hierarchy and internal rules. The Chinese military (PLA) is run by the Central Military Commission of the Chinese Communist Party, rather than by the Council of State, which provides the CCP with additional control over the government. Chairing the Central Military Commission effectively makes one the head of the Chinese military. Mao Zedong was the first chairman of the military commission.[16]

There was enormous deference to Mao during for several decades at both the highest level of governance and within the country as a whole, which by itself suppressed a good deal dissent both within government and the country. This pattern of deference was reinforced by the state security apparatus and policies designed to reinforce the CCP's authority, vitality, and deference to Mao. Even mild critics were routinely banished from positions of authority and subjected to hard labor or worse. Policymaking within the PRC thus centered about Mao, who could be said to be the chief architect of the broad features of the new system. He did not rule alone, but held three of the four most important posts in the new government.[17]

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14 In addition to the CCP, eight small political parties elect candidates to the National People's Congres (Fengchun 2004: 66–73).

15 The *Economist*, for example, draws this conclusion (January 38, 2009). The party could be said to have a role analogous to that of the Manchu nobility under the Qing dynasty. In effect, senior Communist Party members have veto authority and a good deal of agenda control over high-level policy decisions by controlling the persons who make those decisions.

16 Mao once said "Our principle is that the Party commands the gun, and the gun must never be allowed to command the Party" (*Little Red Book* 1964: ch. 9).

17 Mao also occupied another important post, that of the president of the People's

It was not until after Mao left the scene that economic and political liberalization began taking place. And, although the proper direction of reform had been obvious for a century, the post-Mao course of reform required a bit of luck. The next generation of political leaders in Communist China were surprisingly open to liberal economic reforms.

D. The Problem of Secession in 1976 under the Chinese Constitution

After Mao and Chou's deaths in 1976, China's two most important veto players disappeared and four of its most powerful posts became vacant. The death of Mao Zedong and Chou Enlai in 1976, consequently, produced new opportunities for constitutional and policy reform.

As one-party bodies in a one-party state in which dissent was severely punished, there were initially no clear candidates or broad factions in the presidium in support of particular new leaders, beyond those recommended by Mao and Chou prior to their deaths. These recommendations were essentially ignored after their deaths, which demonstrates that much of the deference to Mao was pragmatic, rather than consequences of shared ideology or personal loyalty. As a consequence, there was a good deal of coalitional conflict among members of the PNC and CCP standing committees and among those who could engineer coalitions within those bodies and within their respective congresses.

In principle, the next premier would be selected by the People's National Congress at its next meeting and the next party chairman would be selected at the next party congress. However, both Congresses meet when called into session by their standing committees; so a good deal of groundwork was done before those meetings to establish an agenda, before inviting any votes.

Among the most influential persons in this process of agenda control were, naturally, the persons holding the remaining positions on the standing committees of the Council of State, the CCP's politburo, and the CCP's military commission; the last two were evidently

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National Congress. According to the constitution (article 81), the president can make appointments to high government offices and also remove government officials, including the premiere (albeit subject to decisions of the National People's Congress and its standing committees).

more important than the former. In addition, there were several older "wise men," who commanded deference for their past achievements and for their ability to assemble coalitions in the relevant political and policymaking bodies. The membership of these groups overlapped a good deal, which facilitated coalition building.

However, it also made the succession problem an informal, ideosyncratic process, roughly analogous to forming coalition governments under a proportional representation system, rather than one induced by strong constitutional incentives.

Coalitions among senior members of these committees gradually emerged during the next few years that favored Deng Xiaoping, who managed to have allies placed in two of the top positions.[18] Zhao Ziyang became premier in 1980 and Hu Yaobang became party chairman in 1981. Deng obtained the chairmanship of the CCP's military commission in 1981.[19]

The economic failures of the first three decades of Communist rule could now be more openly discussed which, along with the passing of the first generation of revolutionary leaders throughout China, created new possibilities for reform. The new leaders of government were less ideologically motivated than Mao's team had been, and their policies turned out to be more empirically based, more pragmatic, and more oriented toward decentralization than policies during Mao's rule.[20]

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18 There are meetings that include persons from all four centers of authority, at the Chinese People's Political Consultative Conference (CPPCC). Deng Xiaoping chaired those meetings from 1978 to 1983.

19 It is interesting to note Deng sought only a single position and used his skill as a coalition builder to control the course of reform. On the other hand, it could be argued that control of the military is the most important of the three positions, in that it allows both implicit and explicit physical threats to be used to reinforce personal loyalty and coalitional stability.

China's present leader, Hu Jintao holds the same three positions as Mao Zedong: chairman of the central committee of the Communist Party, chairman of the central military commission, and president of the People's Republic of China. Wen Jiabao is the premier of the State Council.

20 Both Deng's and Zhao's approach had evidently been somewhat more independent of

IV. Economic Liberalism as a Strategy for Increasing Political Support within the Communist Party

It was not obvious that the new alignment of support would be any more stable than the first alignments after Mao's death, and so the new leadership attempted to cement its support through a series of policy and constitutional reforms. As Tullock (1987) points out, even authoritarian regimes confront the problem of coalitional instability.

The post-Mao government revised the election law in 1979 and the constitution in 1982 in a manner that increased the new leadership's base of support (Eastern urban centers and technocrats) and reduced that of Mao's peasant and military supporters in the People's National Congress, Council of State, and Politburo.[21]

In the next several years, the new central government also substantially decentralized the economic and political systems in a manner that favored the urban centers. These reforms, for the most part, gave members of the regional and local governments personal stakes in economic development, which in turn tended to promote economic liberalism for the next three decades, even after Deng, Zhao, and Hu were gone.[22]

A. Liberal Economic and Political Reforms of the 1980s

The Chinese economy was gradually liberalized through a long series of economic reforms at the same time that local governments were given greater control over public finance and regulation. In 1979 the first special economic zones were created along the east

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Mao and mildly critical of some past economic policies, and both had been pushed out of senior posts during the Cultural Revolution, which took place during the last decade of Mao's rule.

21 Rural members of the National People's Congress represent four times as many persons as members from urban areas (Fengchun 2004: 99).

22 Hu Yoabang was retired from office in 1986. Zhoa Ziyang initially replaced Hu, however, he was retired from office (and placed under a loose form of house arrest) in 1989. Deng Xiopeng retired from his official offices in 1989, but continued to exercise significant influence behind the scenes (through his ability to assemble coalitions) until his death in 1997. The next government was headed by Jiang Zemin, a past mayor of Shanghai and chairman of the Shanghai communist party. Jiang served as CCP chairman from 1989-2002.

coast to provide new incentives for foreign investments in export-oriented industries. In 1979–84, a series of land reforms gradually made family farms the norm, rather than exception. This produced immediate increases in farm output and represented a major break with the Russian pattern. In 1983–94, a series of reforms gradually decentralized public finance and allowed cities to keep more locally generated revenues. In 1984 further reforms of urban economies were promoted that encouraged greater use of markets (i.e., production and distribution by private shops and small businesses), reforms similar to those done for family farms in previous years (Lieberthall 2004: 139–42).

In 1985 the central government ended its monopoly over foreign trade and began to allow local government to license local trade companies to engage in foreign trade. At approximately the same time, local governments were encouraged to do so by allowing them to retain up to 80 percent of the profits from exports. Together these reforms induced a 500-fold increase in the number of firms engaging in foreign trade: from about a dozen to well more than 6,000 (Zeng 2007: 46–47).

The emergence of an international private sector, however, was initially limited by the kinds of foreign direct investments allowed. Before 1987, essentially all foreign firms had to have a Chinese partner to create an enterprise in China, often a majority partner, who would profit form the foreign capital, technology, and expertise, without providing a substantial investment. In effect, the first foreign firms could expect only half the profits from their Chinese investments; the rest would go to a favored Chinese partner. After 1987 it became possible for foreign firms to create wholely owned subsidiaries, and within a decade such enterprises were the main vehicle for direct foreign investment (Naughton 2007: 411–12).

B. Constitutional Amendments to Extend and Protect Private Property Rights

In authoritarian states, limits exist to a state's ability to commit itself to long-term policies. Nonetheless, constitutional commitments can be regarded as more durable than ordinary and quasi-constitutional policy adjustments.

In 1988 the constitution was formally amended to "permit the private sector of the economy to exist and develop within the limits proscribed by law" (first amendment to the

constitution). The second amendment states that "the right to use land may be transferred in accordance with law." Private enterprise and property were now included as elements of Chinese constitutional law. In 1993 the seventh paragraph of the preamble (quoted above in note 18) was modified to modify slightly the goals of the government. The revised list includes "to uphold reform and opening to the outside world, steadily improve socialist institutions, develop socialist democracy, improve the socialist legal system, work hard and self-reliantly to modernize the country…" (the third amendment).

In 1999 the 14th amendment acknowledges that "diverse forms of ownership" are included (along with public ownership) as appropriate ones for a socialist system, and also states that "the distribution system with the dominance of distribution according to work and the coexistence of diverse modes of distribution" are appropriate for the present stage of Chinese socialism. In 2004 protection for private property and firms became more explicit: "the state protects the legitimate rights and interests of the self-employed and private businesses" (21st amendment). Article 13 was amended to state that "the lawful private property of citizens is inviolable" and for the first time includes a compensation provision: "the state may, in the public interest and in accordance with the law, expropriate or requisition citizens' private property for its use and shall make compensation for the private property expropriated or requisitioned" (22nd amendment). The authority of the president was slightly weakened by removing the president's ability to impose martial law (27th amendment).[23]

The constitutional amendments adopted after 1982 largely supported the development of markets and private property, but do so in a manner that modifies, rather than abandons, the language of Soviet-style Communist regimes. The latter may indicate compromises made within the government, a consensus to develop a "socialist market economy," or simply the attraction that constitutional conservatism has for post-revolutionary governments. Nonetheless, there was a clear trend in policy and constitutional reforms away from central

23 An English translation of the Constitution of the Republic of China and its amendments is available from China's Foreign Languages Press. The version used above is the fifth edition (2004).

planning and public ownership of the means of production toward markets and private property.

C. The Politics of Sustained Economic Liberalization

The initial reforms of the Deng-Zhao-Hu government initially solidified their support as intended. The absence of significant liberal political reforms to this point suggests that most of the support for economic liberalization was pragmatic, rather than ideological. Liberalism had not replaced Marxism or Maoism as ideology. Indeed, both Zhao and Hu were pushed out of their posts for excessive liberalism by more conservative members of the government.[24] Yet there was no return to central planning as might have been expected. Instead, the results of the early reforms had produced new coalitions in support of further decentralization of policy and marketization of the Chinese economy. The ability of members of top party and state officials to profit indirectly (and directly) from decentralized economic and political authority had cemented support for reform more securely than it had cemented support for particular leaders.

The first stages of liberalization agenda were possible in part because of the centralization of Chinese governance. "Democratic centralism allows" a reasonably small, stable coalition to capture the Chinese government and retain control, as long as not too many officials depart or die at the same time.

The early reforms subsequently allowed those who benefited from the reforms (and those who expected to do so) to retain control of the national and regional governments through their control over candidate lists to the various assemblies and nominations to the senior committees. Insofar as majoritarian and/or consensus-based decisions in the top

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24 Both Zhao and Hu favored continued economic and political liberal reforms, and by the late 1980s, the limits of support for such reforms had temporarily been reached. Zhao's memoirs (2009: pt. 4, ch. 1) discuss how Hu's opposition to the anti-liberal campaigns eventually caused him to lose Deng's support. Hu was asked to resign in 1987.

Zhao was subsequently pushed from power and placed under house arrest for expressing limited sympathy with the Tienanmen Square demonstrators in 1989 (Zhao 2009: pr. 1, chs. 5–6).

committees and in the congresses affect the tenure of those in high office, there was always the prospect of cycles (coalitional instability), but this could be held in check by the authority of and deference to the top officials, (e.g., chairman of the CCP, president of the NPC, chairman of the military commission, and premier), posts that were often controlled by just one or two persons.

Profiting from Decentralization: Rent-Seeking and Rent Extraction

Decentralization in both fiscal and regulatory areas of public policy encouraged a bit of competition and innovation by local governments, as for example with the establishment of village and urban enterprises. The process of gradually re-establishing a private sector, in turn, provided local officials with considerable discretion over which companies and persons would profit from the use of formerly "public" resources. Access to a hard-working, reasonably well-educated, and poor labor force nearly assured that profits could be realized by domestic and foreign investors, but who would obtain leases and other use-rights remained a decision of local government officials.

The ability of local governments and planning commissions to hand out "rents" to domestic and foreign firms allowed them to extract a few rents from rent-seeking firms. Completely honest and public-spirited regional and local officials could use their bargaining power to secure new amenities for their communities. A firm seeking a permit or partner might be asked to build a new school or highway or to set aside land for a new park or to provide some other urban amenity. An honest, but less publicly spirited, official might inquire about leadership posts for his family and friends at the firms seeking permits, land-leasing agreements, and partnership approvals. A dishonest official might simply put such "rents" up for competitive bids by subtly demanding bribes and/or kickbacks (Ngo and Wu 2009).

Privatization proceeded in a number of ways, but most of them provided local governments with both control over the properties to be privatized and the ability to choose the beneficiaries of privatization. The *Forbes* analysis of the wealthiest men and woman in China (Flannery 2008) indicates that most of the great fortunes have been grounded in real

estate and state infrastructure projects, at least before the recent collapse in the real estate market induced by declines in credit in 2008.

Evidence that Rents and Rent Extraction Are Constrained by Competition

Pei's (2007) overview of corruption in China suggests that bribes and kickbacks are almost routinely made to government officials. (About half of all corruption cases involving members of the Chinese Communist Party involve real estate and infrastructure projects, two industries that are very well-represented on *Forbes*' list.)

Participants in the Communist Party's leadership school, for example, list corruption as the most serious or second most serious social problems. China's National Audit Agency found about 170 billion dollars involved in various illegal schemes that produced income for high office holders or their families. One anti-corruption chief was found to have approximately 4 million dollars in bribes stashed away. On average 6000 local officials were prosecuted for corruption in the 1997–2002 period. Bribes and kickbacks have been estimated to be from 2–3 percent of China's gross national product (Pei 2007).

Although these suggest the existence of a good deal of rent seeking, the results also suggest that rent extraction, has been relatively limited relative to the local budgets and to the scale of private enterprises in China. Evidently, competition among communities and in the international market for the goods and services produced constrained the extent to which local officials could extract all the rents associated with privatization.

D. Liberal Trends in Political Institutions Are Less Evident than in Economic Policies

Within, a few decades after Mao's death a series of reforms peacefully and lawfully adopted created a (1) relatively liberal economic system with a variety of market-supporting institutions, including a court system, private property, and relatively open international markets, (2) a more decentralized political system in which local authorities have good reasons to support economic development (rents and promotion), (3) and somewhat increased civil liberties in many areas of life, except politics. There is considerably more freedom to travel and critique the government's policies than under Mao.

It is clear, however, that a good deal more liberalization of China's economic institutions has taken place than of its political institutions. This is consistent with the Olsonian explanation of economic liberalization. Liberal economic reforms are far more likely to advance the interests of top government officials than are reforms of political institutions. In this, the Chinese reforms of the late twentieth century can be said to resemble those of Germany in the late nineteenth century.

Nonetheless, as in nineteenth century Germany, there is evidence that political liberalism remains associated with economic liberalism. There have been occasional public demonstrations (as at Tienanmen Square, and on the Internet). Zhao's (2009) memoirs suggest that senior officials favor at least limited democratic reforms. I have also had several private conversations with Chinese policy analysts who favor shifts toward more democratic governance. Publicly criticizing the institutional structure of the government, however, remains a dangerous activity.

In comparison to the economic and political systems that emerged in Taiwan, the PRC remains a relatively repressive and poor state, but far less so than it was at the end of the Mao period of governance. Foreign trade and national income have expanded rapidly. And, a large minority of urban Chinese live at roughly Western levels of income, especially in China's east coast urban centers. Poverty, nonetheless, remains far broader and, in many ways, more obvious than in the West.

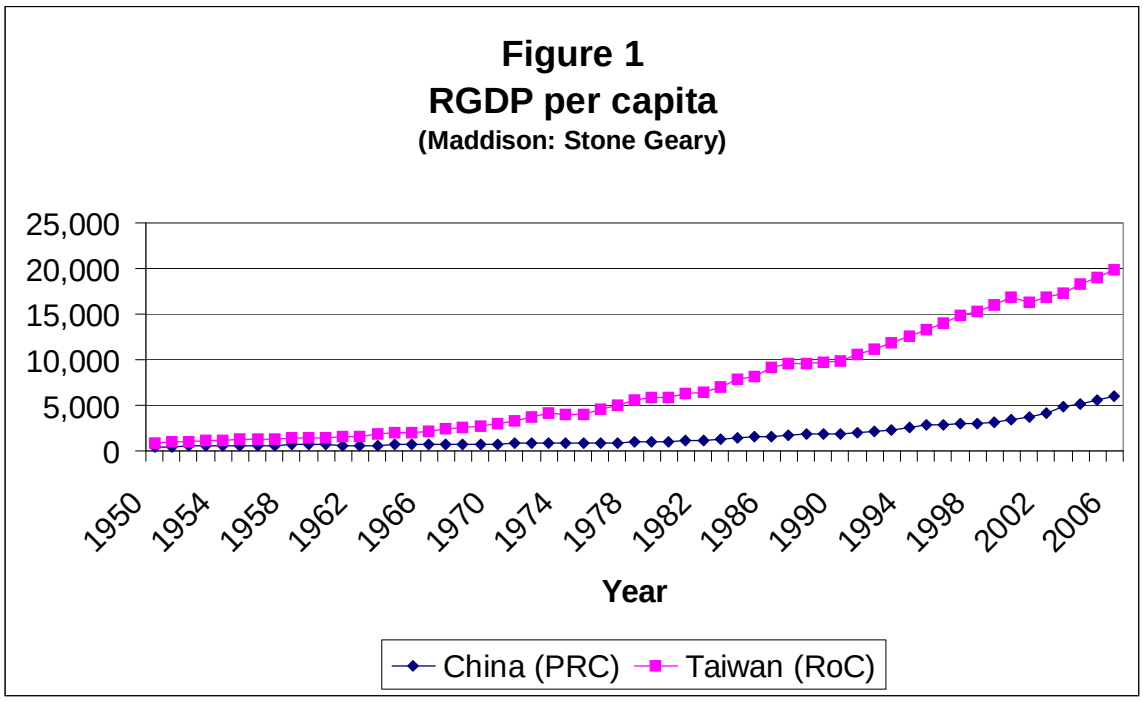
Figure 1
RGDP per capita
(Maddison: Stone Geary)
25,000
20,000
15,000
10,000
5,000
0
1950
1954
1958
1962
1966
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2006
Year
China (PRC)
Taiwan (RoC)

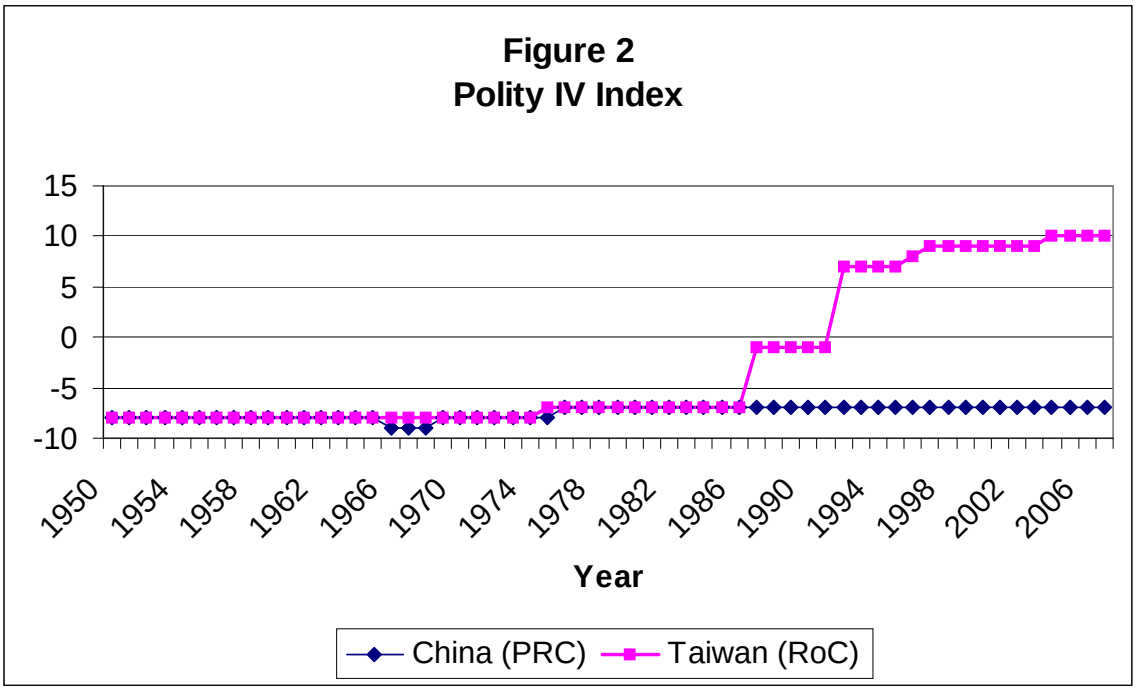
Figure 2
Polity IV Index
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1950
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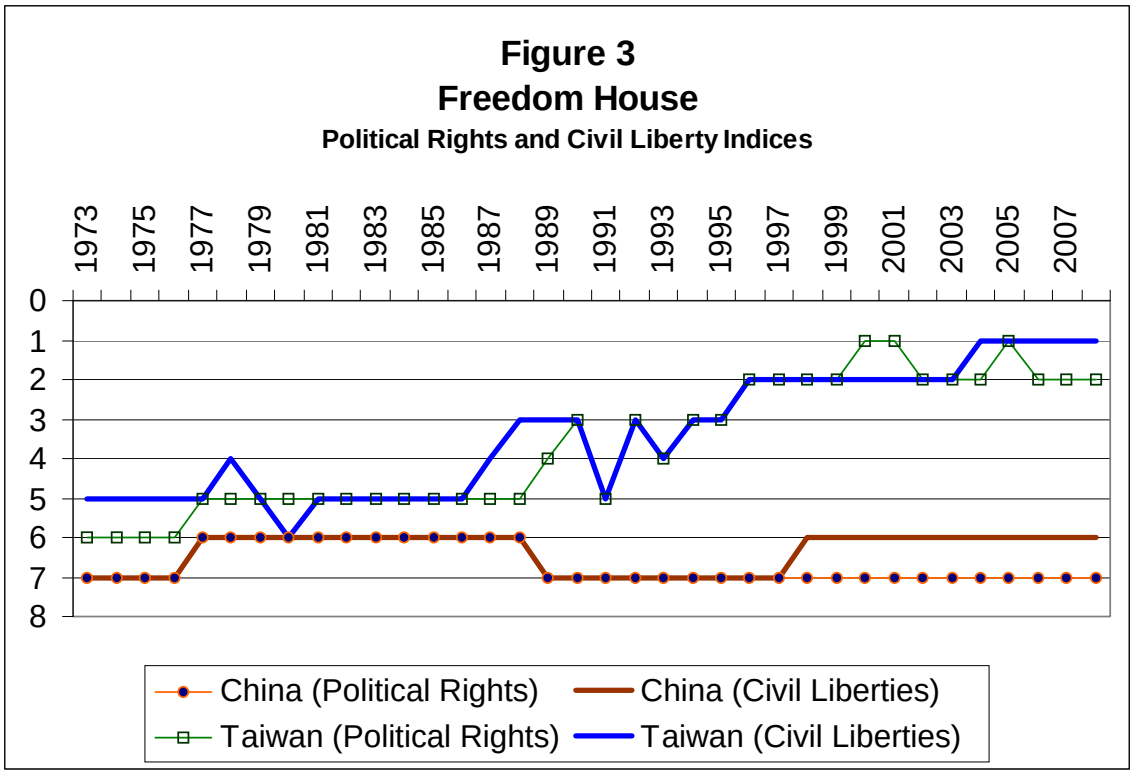
Taiwan (RoC)



V. Conclusions: Fortunate Empiricism and a New Liberalism

Overall the pattern of reform was consistent with Olson's theory o encompassing interest. Local, regional, and national government leaders were able to benefit from economic growth and political decentralization, and pressed for both national and local policies that would increase growth and decentralization. Decentralization and privatization increased economic growth and an also provided additional income, wealth, and deference to local officials and their families. This helped to sustain support for economic liberalization at both regional and national levels of governance. These interests may have included altruistic and nationalistic ones, but private interests were clearly pulling policy in a liberal direction for most of the past three decades.

The same reforms also indirectly limited the ability of local leaders to profit from the reforms. This was not because of anti-corruption campaigns (which were ongoing) but because of the competition for direct foreign investment induced among regional

governments and the export-led growth strategy used. Although all potential foreign firms had reason to seek (and pay for) favors from local governors, the international market is competitive. They could not pay "too much" without undermining the advantage of producing goods in China. Moreover, the relatively large number of port cities and development zones produced competition among the east coast cities for foreign direct investment, which tended to reduce the required bribes and kickbacks. Competition for foreign capital among regional and city governments prevented local officials from harvesting all the rents, which allowed China to prosper broadly (Qian and Weingast 1997).

As a consequence, the average Chinese person also benefited from the reforms. Average income grew rapidly throughout China during this period, but especially in urban centers. There has been an increase in inequality, but wealth has broadly increased throughout China (Li and Zhao 2007).

A Bit of Luck Was Also Needed

It is important to note that China was fortunate in both its timing and leadership in the decade after Mao's death. The same incentives for liberal reforms had existed for nearly a century.

It can be argued that China was a bit lucky with the leadership team that rose to positions of authority after Mao and also in the timing of Mao's death. The new team was more empirically oriented and less ideologically oriented than Mao's regime had been. Deng is famous for saying "It does not matter whether the cat is black or white; as long as it catches the mouse, it is a good cat." By 1976, the relative failure of Mao's program of modernization through centralization and central planning had been made obvious by the relative success of Japan, Korea, and especially Taiwan during the same period. The success of China' neighbors suggested that a program of export-led growth should be at least part of China's strategy for catching up with the West. The success of that strategy gradually increased its support within Chinese elites, which in turn were reinforced by the decentralization of regulatory and fiscal authority. In general, the results were even better than expected (Zhao 2009: 97–98, 150–54).

Increased Ideological Support for Liberalism?

To this point, the economic liberalism of Chinese government officials has been grounded in their pragmatic interests. Such interests do not favor political liberalism. And political liberalism has lagged behind economic liberalism.

There is, however, some evidence that these pragmatic interests are gradually being supplemented and even replaced by new ideological ones. Younger Chinese scholars and policy researchers, in my experience, are surprisingly aware of the work of Mill, Hayek, Mises, Friedman, and Buchanan, all of which have been translated into Chinese (after being sanitized a bit to pass by the censors). To the extent that ideological support for liberalism catches on in China among urban elites (i.e., the new middle and upper-middle classes) and the next generation of party and state officials, it will reinforce the existing liberal economic tendencies of economic pragmatists.

It is also quite possible that ideological support for political liberalism will also increase. Civil liberties have been expanded to the point where it is possible in China (in contrast to Singapore, for example) to have private conversations on political reform issues without significant fear of punishment, although not in print or with public demonstrations. It is thus possible that as the third generation of governing officials gives way to the fourth and fifth that political liberalism will gain significant traction among government officials, although this will require another fairly explicit break with Marxist-Leninist provisions of the constitution and also with the pragmatic political interests of the Communist Party. Public support for more competitive elections and freer political speech is already evident, although it continues to be curtailed by state censorship and criminal penalties. Indeed, the final chapter of Zhao's (2009) memoirs reveals that that former chairman of the communist party supported a gradual path to democracy, along with continued economic liberalism.[25]

Ideas as well as interests clearly matter in China, as the transition from Mao to Deng, to Hu, have clearly indicated.

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25 The models of suffrage reform developed in Congleton (2004) imply that economic development by itself is not likely to induce significant democratization of politics.

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Appendix: An Overview of Chinese Governance Before Mao Zedong from the Perspective of Constitutional Political Economy

The Han Dynasty (206 B. C. to A.D. 220) created a government with two centers of authority, the emperor and chancellor, each with executive councils, and each with their own areas of policymaking. The balance of authority shifted between these centers of governance through time, and between the central government and the regional governments for much of Chinese history. Similar parallel administrative structures have been used for more than two thousand years. Although the chancellor was brought under the emperor in the Ming dynasty (1368-1644), it was substantially restored in the Qing Dynasty (1644-1912) and remains evident in the contemporary Chinese government (1949-present).[26]

For most of this period, the bureaucracy, which included most local administrators, was appointed on the basis of competitive examinations. The examinations at both national and provincial levels focused on Chinese civil law and Confucian thought, which tended to assure that the bureaucracy understood the standing precedents of governance and had a more or less coherent ideological perspective on the purpose of that law and Chinese society in general. The examination system also tended to assure that reasonably smart and well-educated men occupied most administrative posts throughout most of China, throughout most the Chinese history. This naturally improved policy decisions at the same time that it gave the best and brightest children of regional elites a stake in Chinese governance. The examination process also provided a nonmilitary avenue for social mobility among those who had access to education. Indeed, Mu (1982: 123) suggests that Chinese governance through the Ming Dynasty (1368-1644) could be regarded as governance by the Chinese intelligencia.[27]

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26 (Mu.1982) provides an unusually clear overview of the formal architecture of Chinese governance during this period. See (Mu: 1982: 128) for a discussion of the change in the balance of authority between the chancellor (prime minister) and Emperor in the early Ming Dynasty. The basic cabinet form of government and use of examinations, however, continued.

27 Confucian thought seems to have been well suited for this form of government (Hsieh

The balance of authority between the central and regional governments varied substantially through time largely as a consequence of intra-governmental negotiations, but also as a consequence of civil war and invasions. China is a large country and variations in local conditions and governing it required local administration throughout the country. The regions had their own languages, varied in their agriculture and trade links, and had their own wealthy and well-connected families. The local governments were for the most part staffed and run by members of those families who performed well on the national and regional civil service exams. The military was also for the most part organized into regional corps and evidently run substantially by the same local elites during much of Chinese history, which occasionally produced wars of secession and also a few dynastic changes. For example, the Moguls were regional powers that established the Yuan dynasty (1271-1368) and the Manchus established the Qing dynasty (1644-1912) by overthrowing the Ming dynasty.

For most of its history the central governments of China had attempted to regulate trade relationships with the outside world in a manner that was not so different from mercantilist regulations in Europe. Internally, there were numerous state monopolies, as in salt and iron, and regulations on the extent of trade, although there were also periods of relatively free trade during the Ming dynasty. The "silk road" provide an overland commercial route to much of the rest of Asia, and through Turkey to Europe. After sea routes to Europe were worked out by the Portuguese in the sixteenth century, the oceans

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1925: ch. 1). The emperor is (implicitly) appointed by heaven and rules as long as he is able to persuade the people to follow.

Confucius emphasizes the virtues of a "princely man," a person who has received a "wide-reaching gentleman's education." A princely man is diligent, prudent, and seeks to put his words into practice. His most important goals are humanity (goodwill toward others), reciprocity, and loyalty. Knowledge is gained by "observation and listening" and "selecting what is good from what one has heard." Confucius also emphasized a separation between religion and government organizations. These ideas, perhaps surprisingly, remain important in China today (Kaizuka 2002: Ch. 4).

provided more convenient routes for bulk shipments of commodities such as tea and silk to Europe in exchange for silver. (This flow of trade suggests that foreigners had little of interest to offer the Chinese during this time, but it also suggests a mercantilist cast to Chinese economic thought.)

A. China Falls behind the West (the Qing Dynasty: 1644–1912)

In the seventeenth century, China began to fall behind Europe. This occurred for many reasons, not all of which were under Chinese control. At the time, a scientific and philosophical revolution was under way in Europe. In China, however, there were at least two contributing factors. First, there was a change in regime, as the regional government of the Manchu region took over the national government after a fairly brief civil war. The Manchu were ethnically distinct from the Han, who had governed for 1,800 years. They had their own nobility and armies and created a new parallel system of governance for China.

The Manchu kept the basic organization of the preceding Han-Ming government, but established a more or less parallel system of government to consolidate Manchu authority. Although an emperor continued to dominate governance, two different tracks for high authority now existed, one based on exams and one based on noble heredity.[28] Manchu nobles and armies were given privileged positions throughout the existing Chinese government and territories, including majorities in the council of state and inner cabinet (Hsieh 1925: 68–85).[29] The council of state continued to have significant influence over day-to-day public policy, although this, as usual, varied a bit through time according to the

28 Hsieh (1925: 47–49) notes 20 categories of nobles: 6 classes of princes, 4 classes of dukes, and 10 classes of knights, each with their own privileges and duties. Titles were hereditary, but with provisions for most family members. A duke's first son would also be a duke, but the second son would inherit a lesser title and the third one below the second and so forth.

29 Hsieh (1925: 85) notes that "the Council, [was] an organ [through] which the Manchu Emperors expected to centralize all powers of the government in their own hand, [but which] accumulated more power for itself than it collected for its master." Evidently, policymaking authority shifted more or less peacefully between the emperor and his council through time, as suggested by the theory of constitutional exchange outlined above.

interests, talent, and circumstances of the emperor. The extent of central government control over the new Manchu-headed regional governments also varied somewhat through time, with perhaps a slight trend toward decentralization.

Second and equally important, about a century later there was a change in relations with the rest of the world. In the second century of the Qing dynasty, it was decided that foreign trade should be reduced and the government adopted a series of policies that eventually limited foreign commerce to the port of Canton (Guangdong) under its "closed door" policy from 1757–1842. The period of closure was extremely unfortunate, because this period turned out to be one of the most innovative periods in Western history. Economic, scientific, and military development in China fell well behind that of Europe and North America in that period.

The century closing was not as long or restrictive as that adopted a century earlier in Japan, but it had similar effects.[30] China remained a pre-industrial society, while Europe and North America adapted the steam engine to production and transport and standardized factory-based production of consumer goods and military equipment.[31] After nearly a

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30 The Japanese closure limited European trade to a small port of Deshima in the south of Japan, where only the Dutch were allowed to trade.

31 The closure was partly in response to perceived military threats associated with European efforts to colonize nearby parts of Eastern Asia. (Rent seeking, however, may also have played a role in this policy. Closure enriched 12–13 Chinese merchants who were given exclusive rights to trade with foreigners in Canton during this period.)

Eastern Asia was increasingly under European control and influence by the mid-eighteenth century. Spain began colonizing the Philippines in the sixteenth century. The Portuguese, Dutch, and English began to establish trading posts in Indonesia in the sixteenth century and the English did so in Australia and New Zealand. Russia had expanded its empire in the north, reaching the Pacific coast in the seventeenth century. In China the Portuguese traders began settling in Macau in the sixteenth century, where they rented land from the Chinese. The Dutch established a commercial base on Taiwan in 1624 and the Spanish in 1626, but the Dutch and the Spanish were pushed out of Taiwan by the Chinese during the mid-seventeenth century. (It is interesting to note that the Chinese had been more open to the efforts of Christian proselytizers in the period before closure than the Japanese had been. For example, an edict of toleration was adopted in 1692.)

century of closure, a short war conducted by the British (the Opium War) caused four more ports to be opened to trade in 1842 (Xiamen, Fuzhou, Ningbo, and Shanghai). The port of Hong Kong was also ceded to the British at that time.[32]

Chinese losses from that short war and subsequent ones clearly revealed to the Chinese leadership that China had fallen behind in at least some important areas of technology.

B. China's Revolutionary Twentieth Century

The stumbling block reached by China in 1900 was partly a product of the past success of Chinese institutions. For much of its long history, China was one of the wealthiest and most creative places on Earth. Among its most influential inventions have been the wheelbarrow, paper, movable-type printing, paper money, the compass, gunpowder, silk, and pasta. The Chinese can also be said to have worked out some of the most durable forms of government in world history. The division of authority was not entirely static, but the essential architecture of governance was durable and stable. It remained in place for centuries at a time.

Institutional stability comes at a price, however. Conservative institutions successfully replicate themselves through time, but also limit opportunities for innovation and reform. Many of the most ingenious of the Chinese inventions were not fully taken advantage of by the Chinese themselves. This could, for example, be said of movable type, the compass, and gunpowder; extensive applications for which were worked out by Europeans, rather than the Chinese.

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32 See Tai (1918: 3–4, 8). The Chinese had attempted to end the import of opium from Western traders several times during the previous 50 years, which would have greatly reduce profits from Western trade with China.

The modern spellings of the Chinese cities, except Canton, are used throughout this paper. Four of these five ports are still among the top foreign export centers in contemporary China. Canton (Guangdong) is still the largest (Zeng 2007: 47).

The late nineteenth and early twentieth centuries were unsettled times for China, but they did not produce many useful or durable political or economic reforms. There were significant internal revolts with millions of casualties. There were also significant wars with Japan, Russia, France, and the Western powers. There were periods of starvation. *The New York Times* mentions three periods of starvation in China between 1890 and 1920, during which millions of Chinese were at risk. (These famines, however, were an order of magnitude smaller than those that would be induced by Mao's reforms in the 1950s.) In the late nineteenth century, the Chinese central government lost control of Korea and Taiwan to the Japanese.

Unlike Japan, which had made significant reforms of government in the second half of the nineteenth century, the Chinese leadership of the nineteenth century evidently believed that their fall behind the West required no significant changes to their system of governance. Their efforts to catch up thus focused on acquiring Western military and commercial technology, rather than the political and legal systems and ideas that had helped produce those technologies.[33]

Many students were sent abroad to Europe and to Japan to bring home the new technological expertise. Along with new technological expertise, however, the students nonetheless also brought home new anti-Confucian ideas, mostly liberal ones in the nineteenth century. The returning students thus began to press for liberalization of the Chinese political and legal system. Many supported changes in the long-standing examination and education systems as well as creation of representative assemblies selected through competitive elections.

There were, however, only limited channels through which returning engineers and scientists could affect public policy. The education required for government advancement still focused on Confucian ethics, Chinese literature, and civil law, rather than science and

33 It was not until 1903 that a public education system with a Westernized curriculum was established in China. It was also in this period that thousands of students were sent abroad for education, most to Japan (Blakeslee: 1913: 98 and 165–66).

technology. This meant that those who had studied abroad gained little status or direct influence from their more technical foreign education. Many of the leaders after the fall of the Qing dynasty were foreign trained, but very few of those in the Qing dynasty.[34] There were also evidently internal barriers to trade that made the new European technologies difficult to apply in Chinese.

By the end of the nineteenth century, it was clear that China needed more systematic reforms if it were to take advantage of these technologies and survive as an independent nation (Lieberthal 2004: 24–29). However, it was the conservatives, rather than the liberals that won the internal policy debates and the first of many internal revolts. The "Boxers" assaulted Chinese liberals and attempted to reverse the tide of foreign (liberal and Christian) influence within China and evidently did so with the tacit support of the imperial government.[35]

In spite of pressures for reform, which took place largely outside the centers of Qing political authority, institutional conservatism prevailed. The central government resisted most such efforts to reform at the same time that its inability to advance either broad or elite Chinese interests became more and more evident.[36]

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34 It bears noting that Chou Enlai, the premier of Mao's cabinet, and Deng Xiaoping, Mao's successor, both had studied in France and so had experienced Western governance and economics first-hand. Deng had participated in a work-study program in France in 1919–26, where he first studied Marxism and also got married. There were evidently sufficient numbers of Chinese studying Marxism in Europe in the early 1920s to form a Chinese Communist Youth League for Europe (see en.wikipedia.org/wiki/Deng_xiaoping).

35 Suppression of dissent in China also caused many pro-reform liberals and Marxists to live abroad in Japan or in Europe.

36 A number of returning students returned with and translated books by European liberals including Mill, Spencer, Darwin, and Henry George, many of which were based on Japanese translations. Returning students also organized newspapers and groups that aimed to replace the Manchu-Qing imperial government with a more liberal, written constitution (Blakeslee 1913: 166–67). The liberal reform movement in China, however, was substantially driven underground (and/or to the safety of Japan) by the "Boxer Rebellion" organized by Chinese conservatives in support of their long-standing institutions (along with the Chinese socialist movements).

The imperial form of government finally ended in February 12, 1912, with the establishment of the Republic of China.

Origin of the Republic of China

At first, Chinese republicans attempted to move directly from imperial government to a new government modeled on Western forms with a prime minister and an elected national assembly. As usual, however, the result of the republican revolution was not stable or democratic. And, perhaps not surprisingly, given the interests of the Manchu nobles heading most regional governments and armies, it was not widely supported.

The regional governments, with their more or less imperial structures headed by more able persons than the Qing dynasty attempted to break away from the new central government's authority and the ancient empire collapsed into a long series of wars of secession and civil wars. There were many new provincial governments, most modeled on the old Manchu-Qing model, but a few were modeled on more Western patterns.

The Republican of China's government, however, did not entirely disappear, although the territory under its control diminished for a few years and its government shifted in an authoritarian direction as new leaders reassembled China. The political and military leaders who led the republic, Sun Yat-sen and subsequently Chiang Kai-shek, began a series of economic reforms and industrial programs to industrialize the Chinese economy, at the same time that they tried to reassemble central governance for China.

By the standards of China in that period, Sun and Chiang could be regarded as liberal reformers, in that they attempted to promote industrialization and somewhat opened up both China's economic and political systems. The republic's economic reforms were reasonably successful given the active warfare taking place during most of the period between 1911 and 1949 (Naughton 2007: ch. 2). However, it bears noting that the republican reformers in that period had Japanese models in mind, rather than Europe's models, perse.[37]

After World War II, the republican army rapidly lost a civil war with another group of reformers, who were inspired by another line of Western thought, a group led by Mao

37 Chiang Kai-shek had studied in Japan, served in the Japanese army, and associated with Chinese liberals (republicans), while in Japan.

Zedong.[38] Following the republican government's defeat in Nanking in 1949, the government and its army retreated to Taiwan, where the Republic of China continued to govern.[39] That much smaller republic grew rapidly and gradually evolved into a Western democracy over the course of the next several decades, with relatively open markets and a representative system of governance grounded in broad suffrage.

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38 After the fall of the Qing dynasty, Mao studied at college in Hunan, graduating in 1918. He continued his studies at Beijing University, while working part time as a librarian. It was during this period that he developed many of his political theories. He was subsequently active in establishing the Chinese Soviet Republic and rose to its top position(s). The Chinese Soviet Republic governed up to a sixth of the territory of China during the early 1930s from its capital of Ruijin in the province of Hunan in Southeastern China.

The Constitution of the Chinese Soviet Republic stated that the government's goal was "to destroy all feudal survivals, to annihilate the might of the war lords of China, to unite China, systematically to limit the development of capitalism, to build up the economy of the state, to develop the class consciousness and organization of the proletariat, to rally to its banner the broad masses of the village poor in order to effect the transition to the dictatorship of the proletariat." It was largely successful in these aims over the next two decades (see www.marxists.org/archive/kun-bela/assorted/1934/china.htm).

39 It can be argued that the Japanese invasion(s) had saved the Chinese Red Army, by diverting much of the Republican army first to the north and then to Shanghai and the east. The Japanese invaded Manchuria in 1931 in pursuit of its natural resources and induced Manchuria to secede from China. The Chinese Communists were driven from their home base by the republic's army in 1934, causing "the long march." In 1937, Japan launched attacks on Beijing and Shanghai. These Japanese attacks led to an alliance of China's various armies against the Japanese. The "united front" armies continued to fight the Japanese army, albeit not very successfully. China's two traditional capitals, Beijing and Nanjing, were both captured by the Japanese in 1937. The Chinese civil war officially resumed after the Japanese surrendered in 1945.