

The selectivity and consequences of Chinese crisis management: Consolidated authoritarian capitalism as a new brand of political regime?

HAN Sang-jin
Seoul National University

LÜ Peng
Chinese Academy of Social Sciences

Introduction

“Welcome to the People's Republic of China,” declares a Chinese officer as he crisply salutes a flood of refugees from all over the world who fled to Tibet as their homes were destroyed by an end-of-time deluge. It is a line that thrilled thousands of Chinese filmgoers who voted writer-director Roland Emmerich's latest blockbuster “2012” the most popular Hollywood film in China. The plot panders to Chinese audiences: the giant Arks that will save humanity are both made and landed in China. When the apocalypse comes, China will save the world. At least that's how Chinese audiences interpret this movie. For the first time that anyone can remember a Hollywood disaster movie has cast the Chinese as significant beneficial force.

The aim of this chapter is to explore some salient characteristics in the Chinese pattern of crisis management to see why China has been so successful in economic development that even a Hollywood movie alludes that it might save the world from its economic woes in the wake of the global financial crisis; the Chinese themselves seem to be more confident after the global economic downturn. Of course, it is an exaggeration to say that China will save the world economy, but it seems quite certain that it is making a significant contribution to that end. In order to discover why we would like to focus on the specific selectivity embodied in the rules of crisis management by the party-state of China and the consequences of the institutionalized selectivity. However, the ultimate goal of the analysis is not to simply present this success as a positive development but also consider it as a possible threat to the future of China. In this connection we want to bring up the issue of democracy¹ and citizens' participation as important issues to be adequately addressed. For this purpose we shall examine the attitudes of Chinese elites towards democracy before and in the wake of the current financial crisis.

Where does China stand today?

The current economic crisis, which originated in the meltdown of the financial and housing markets of the United States, spread all over the world but had only a limited direct impact on China. It is true that Chinese companies with heavy

¹¹ By saying democracy, we refer to a system wherein top political leaders are selected via free and fair elections. If one accepts this thin definition, China is definitely not a democratic regime.

investments in the West faced a massive blow, but thanks to the relatively slow-paced development of China's financial system and the fact that foreign investment by China's banking industry is subject to foreign exchange controls and regulatory approval the banking industry's overall open foreign exchange exposure has been relatively small. More importantly, because of its insulated banking sector that relies primarily on deposits, the domestic financial market in China has not experienced a "cash flow crisis". Furthermore, there has been almost no direct impact on small and medium sized banks.

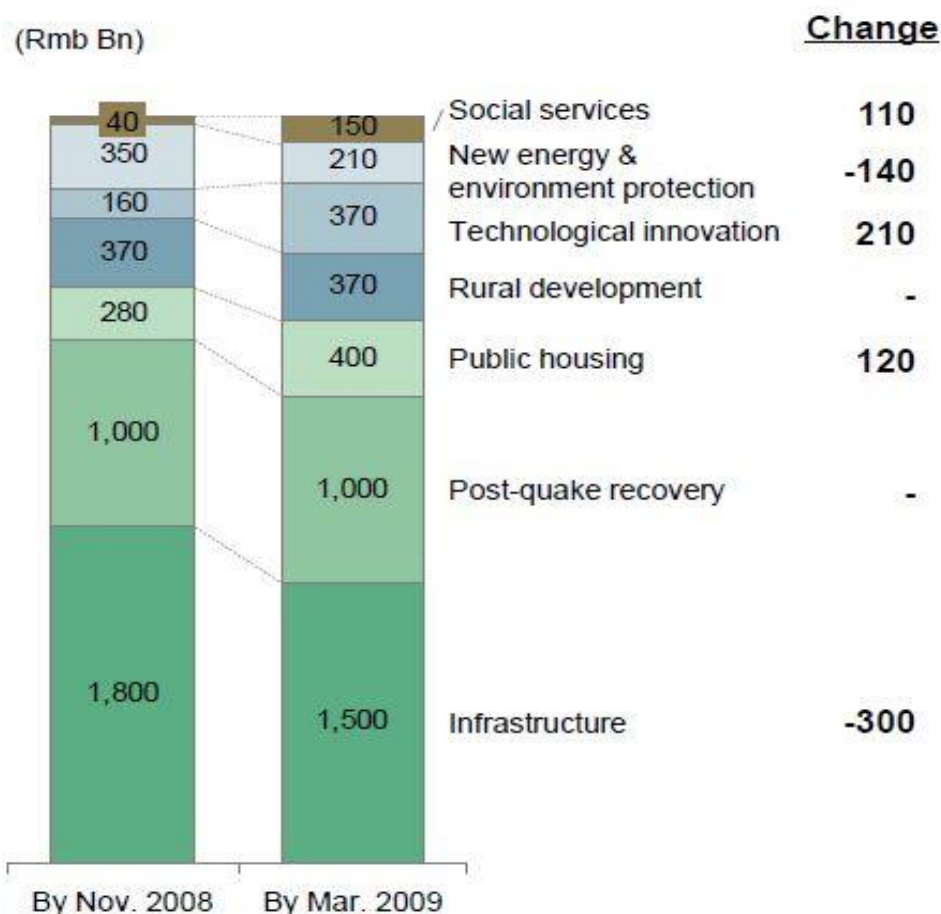
China was also spared the effects of the other "culprit" of the global crisis, the housing market, which despite of a huge bubble did not collapse in China as it did in many Western countries. In fact, the Chinese housing market skyrocketed by almost 60% since 2008 when the financial crisis broke out. The price of land in and around Beijing has gone up by a factor of 9 in the last 6 years. Many observers believe the question is no longer whether there is a Chinese housing bubble but when it will pop.

As far as China's real economy is concerned the international crisis left its mark in several respects. To begin with, international trade was badly affected. For the first time since 2001, in November 2009 exports fell by 2.2% while in December imports declined by 17.9%. Secondly, the manufacturing sector taking orders from US and EU began to feel the pinch: in early October 2008 the China Manufacturers Purchasing Index, based on monthly questionnaires sent to 400 Chinese manufacturers, indicated the steepest fall in the volume of foreign orders since the survey began in 2004. In addition, orders from the West for Christmas products made by Chinese manufacturers fell off the cliff in that year. It was reported that as a result 23 million migrant workers were laid off in major manufacturing cities and had to go back to their hometowns in the inland provinces. (Cai and Chan, 2009; Wang, 2010b)

Such factors as decreasing exports and increasing unemployment as well as the loss of Chinese banks' foreign assets can be considered exogenous. And while they did affect China they have caused a *slowdown* rather than a *meltdown* of the Chinese economy, which in some respects remained booming. In the first three quarters of 2008 the country's domestic consumption, another engine of the economy, still grew by 22%, which was 6.1% higher year-on-year. This does not mean that China's endogenous economic sectors are perfectly healthy. As we will point out below China has its own serious problems. As an economy whose export-GDP ratio reached 37.5% in 2007, the global recession must send the rather dangerous signal that decline in exports might turn into a domestic economic meltdown. Therefore the question of how to expand domestic demand, has become of crucial importance to prevent the exogenous crisis from jeopardizing the real Chinese economy.

The *Chinese* response may be seen as a *policy of extreme Keynesianism*. In November 2008 the Chinese government launched a swift rollout of 4 trillion RMB (\$586 billion) stimulus to be spent in the following 2 years. This package was the largest (as a share of GDP) in the world and was equivalent to 13% of GDP in 2008. The principal aim of the package was to spur domestic demand, reduce domestic savings and increase consumption to make up for the fall in exports. Figure 1 below shows the overall composition of this massive scheme.

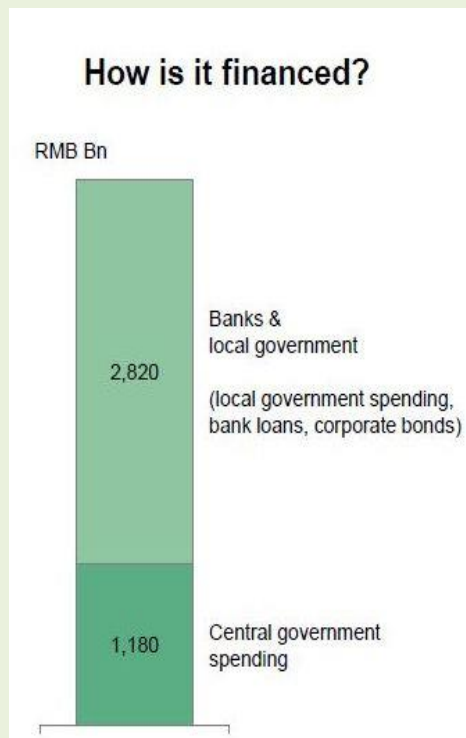
Breakdown of the 4Tn stimulus package



With 1500 billion (37.5%) assigned to infrastructure, the real injection earmarked for projects related to infrastructure and construction amounted to about 2900 billion (74.5%). Both public housing and post-quake recovery were of use to land developers, while a total of 550 billion was aimed to enhance China's social welfare net to help increase individuals' purchasing power in social services and rural development. The object of the monetary element of the stimulus plan has been to expand the banks' credit supply and increase existing loans. In January of 2009 new loans reached a record of 1.62 trillion Yuan. This figure increased to 4.59 trillion in March (see Zhang et al.). Seven months later the composition of the stimulus package changed significantly. This was in response to wide criticism leveled at spending too much on infrastructure and construction, which led the government to increase investment on social welfare. For example, 110 billion and 120 billion went for social services and public housing, respectively. But heavy investment in infrastructure and construction is still the dominant feature of the package.

To be more specific 1 000 billion RMB of the 4 trillion package was earmarked for the recovery of the devastating earthquake that occurred on 12 May 2008 and killed 68 000 people. Some of the investment had already been announced before November 2008. The extra funds might amount to less than a third of the announced stimulus package but the gross amount of the stimulus package is still huge and promotes market confidence domestically and internationally.

The stimulus spending was not only high but it was also quick. As Figure 2 below indicates the package was not fully financed by the central government. About 30% of the total amount came from Beijing, while the rest was supposed to come from local governments and from lending by state-owned banks. The efficiency of



the party-state was impressive. Within weeks local governments were meeting to compile lists of shovel-ready projects along guidelines set by the central government. Each provincial government announced its own parallel “stimulus package” for two years, making the total budgets amount to 10 trillion RMB. By the end of April 2009, that is six months after the stimulus package was announced, about 57% of the total 4 trillion budget (2.28 trillion) was already allocated. Subsequently the central government asked its branches to spend 100 million RMB (about 14.72 million US dollars) on large projects within 110 days. Such giant projects would be impossible under conditions of a liberal-democratic political system where state power is always under heavy periodic pressure to gain legitimacy and support from the electorate. The Chinese government, on the other hand, can mobilize resources across

the nation and invest colossal amounts of money efficiently to carry out specific projects (e.g., the post-earthquake recovery) or specific events (e.g., the sport programs in Olympics). Some commentators see this as evidence for the “strong state capacity” of the Chinese government or, following a Chinese expression, the “*juguo tizhi*” (whole nation regime). Whether we like the idea of “*juguo tizhi*” or not, the level of the financial might of the Chinese central government is exceptionally strong. Two factors explain why the central government could pay out its share of the package and why the banks’ share made up of lending went into overdrive, while the local governments could put up only about half the amount. One reason is the government’s control of tax revenue, which was centralized in the “tax-sharing reform” of 1994 (Wong, 2000). The other reason is that corporate governance of state banks has been substantially modernized since the late 1990s (Shih, 2009); the accumulated debt of Chinese local governments was as much as 2.79 trillion RMB (US\$412 billion) by the end of 2009, according to the National Audit Office.

Selectivity of crisis management

How, with what purpose and to whom was the heavy stimulus package distributed? We cannot offer a definite answer to this question due to the confidential nature of information of this kind but we can formulate a few reasonable hypotheses. First, the greater part of the package was channeled into infrastructure projects as these can absorb the largest number of workers in a short period of time. Second, state-owned rather than private enterprises benefited most from the stimulus package. Combined, the party-state explicitly attempted to protect the interest of the SOE since functionally they represent the most

important sector in China. Channelling money in this manner is meant to prevent workers from becoming a socio-political factor of an aggressive challenge to the regime. In this sense, the party-state is not significantly different from a typical capitalist state in the West. The very logic of state activity in China is to steer the economy and to manage the society in such a way that enterprises make profits and workers become submissive.

The heavy investment in infrastructure and construction is not particular to China. Even the US adopted a similar policy. In his State of the Union address in 2010 President Barack Obama announced that the federal government would invest \$8 billion for high-speed rail, saying “There’s no reason Europe or China should have the fastest trains, or new factories that manufacture clean energy products.” However, the need to absorb as many workers as possible is particularly strong in China where people have become accustomed to a fast growing economy. In order to insulate the Chinese industry from the effects of the global downturn the government’s most urgent priorities were to safeguard living standards and to contain unemployment by means of state-led investment and the facilitation of credit. In this process, even the textile industry, a labor-intensive but overgrown industry in China, became substantially subsidized. This was against the basic principle of structural reform set forth by the government.

Seen from a political perspective the imperative of the party-state was not to allow workers to rise as a national force of change. The slowdown of exports was a big challenge to Chinese policy makers and political leaders became keen to learn what might happen if an unprecedented depression actually did take place. It was disclosed that the All-China Federation of Labor, the government-controlled and the only legitimate trade union in China, sent several teams along with officials from other government branches to major coastline and inner cities to investigate how serious the situation was because none of them had any idea what was going on.

The selective preferential treatment of SOEs needs more explanation. First, big infrastructure projects have been dominated by SOEs and preference for SOEs and infrastructure is just two sides of the same coin. Secondly, as far as other domains are concerned (e.g., energy, high-technology, ecology industry, and manufacturing), Chinese state enterprises are no longer the small companies they used to be in the past. Instead, they now send shockwaves to the business world. In the *Global 500* list of the world’s largest companies released by *Fortune* in July 2009, 37 Chinese firms made the list and they were all state-owned. In the list of 2010, three Chinese state-owned companies were listed among the top ten, while 6 American and 1 Australian company made up the remainder.

The reason for this can be found in China’s reform of state-owned enterprises during the late 1990s called “*zhuadafangxiao*” (hold on to the big and let the small go). On the one hand, the “let the small go” part soon turned into a chaotic wave of straightforward privatization, often involving local governments and corrupt officials. On the other hand, after a series of restructuring the “hold on to the big” part of the guideline, generated several behemoths. This was somewhat similar to what happened in Poland during the 1990s when large SOEs were reorganized and upgraded under the scrutiny of a specific government department. But the difference was that the “strategic and mainstay” Chinese enterprises were

ultimately not privatized but remained under the control of the government through the offices of the state-owned Assets Supervision and Administration Commission (SASAC), which represents the state to “fulfill the duty as the investor” of the SOEs. By means of robust taxation and other profits from these aircraft-carrier-like state firms the state gained more economic might to invest in its social welfare system. In other words, a stimulus package that selects state-firms as a priority can be profitable in some cases, not to mention that those state enterprises have much stronger networks to lobby or bargain for more budgets for themselves than do private or foreign companies.

The stimulus package favors state enterprises not only for economic reasons but for also for political ones. Chinese leaders believe it is much easier to control labor in state-enterprises than in private or foreign companies because managers and workers do not care much about profits as long as the state invests enough money to keep their payrolls and welfare going. It is therefore not surprising that in the past 60 years employees working in state entities have never launched a successful national protest in China. For both Chinese economy and politics a national labor strike could be a fatal event, incomparably more serious than the heated debates on the “exchange-rate regime”. This is why the party-state is more keenly interested in subsidizing state enterprises as “strategic economic domains” than in subsidizing private enterprises.

Consequences of crisis management

As pointed out above, the beneficiaries of the stimulus package of both the central government and local governments are found overwhelmingly in the state-owned and state-controlled enterprises. The Chinese government publicizes only the macro-data revealing the general composition of the budgets, but not the concrete data showing the actual distribution of the public fund and its net effect on the targeted goal. Efforts have been made to change this. For example, Yan Yiming, a lawyer in Shanghai, appealed to the court to force the government to open its budget for public scrutiny but after a year of appeals the case was turned down by the court. The government budget remains confidential in China and governments leak out only a little information. Therefore, substantial analyses of the distribution of the fund cannot be adequately done and give rise to the public concern about corruption and cronyism. Yet a rough assessment can be made. For example, the government announced to reshape 10 major industries with the package, including steel, motor vehicle production, ship building, energy industry and electronics, all of which are dominated by giant state enterprises. SOEs also play a formidable role in infrastructure and constructions. Available data showed that some 67% of the 90 “land kings” which emerged in China during 2009 with record-breaking investments in land development were state-owned enterprises. Official media estimated that around 90% of the stimulus capital has so far been directed towards state-controlled entities. When the hand of the state grows heavier, as some observers indicate it does, “a bigger big brother” is likely to emerge in China (Naughton, 2009: 282). Be that as it may, as a result expanded investments from the state began to have a discernible impact on the economy since the first quarter of 2009. At least in the short term this “primacy of internal investment” strategy has achieved some positive effects. We shall illustrate this in terms of two major economic indicators.

First, economic growth in terms of GDP remained robust in the past two years as China's economy expanded by 9.6% in 2008 and by 9.1% in 2009, by far the best performance in the G20 economies. Several prestigious investment banks estimated that the 4-trillion-package contributed 2-3 GDP points to the growth, with Morgan Stanley and Citigroup estimating 2 points and Merrill Lynch estimating 3 points (Michael, 2009). In fact, according to data released by the Japanese government on 15 August 2010, China's GDP topped Japan's in the second quarter, making the emerging giant the world's second-largest economy after the United States. This trend is expected to hold in contrast to the brief period in the fourth quarter of 2009 when China pulled ahead but then faltered.

Second, China's exports have shown a strong recovery and as a result factories are reopening and employment is up. In the first four months of 2010 the total value of China's import and export rose by 42.7% year on year to US\$ 855.99 billion, where the export value rose by 29.2% to US\$ 436.05 billion. Actually, as a result of the export recovery Chinese factories in a few coastal cities have been struggling to find workers to help fill export orders despite exhaustive recruiting efforts. Even more astonishingly, the media are reporting that since July 2010 factories in two of the most developed coastal provinces, Guangdong and Zhejiang, have even resorted to hiring illegal workers in fairly large numbers from Vietnam, Burma and elsewhere as they cannot hire enough domestic workforce. This paradoxical phenomenon can be explained by China's changing demographic structure, booming economy in interior cities and the factory regime of "sweatshop" (Wang, 2010a). Anyway, contrary to some Western (and some Chinese) forecasts, China's estimated 200 million migrant workers have proven not to have been a destabilizing force.

Third, the ratio of household consumption to GDP, the weak link of Chinese economy, is not as high as expected but it is increasing rapidly. In 2009 it accounted for 52.5% of GDP growth, up from 46% in 2008. Household consumption showed a corresponding rate of increase over the same period, accounting for about 39% of GDP growth in 2009, compared with 33% in 2008. (Lo, 2010)

Consequently, the stimulus package made it possible for the party-state to make a U-turn in its macro-economic policy prior to the unexpected exogenous crisis. Since the fourth quarter of 2007 the major concern of Chinese policy makers was described as "Two Preventions". One was to prevent the economy from overheating, the other to prevent inflation. The Chinese government attempted to cool off the overheated economy by reducing demand for housing and investment (via higher interest rates) as well as for exports (via the RMB exchange rate). The crisis, however, knocked this policy off the track and by December 2008 the basic government objective became to maintain a stable and relatively fast economic growth. As the Chinese Premier Wen Jiabao reaffirmed at the post-National People's Congress (NPC) press briefing in March 2009, this year, "an 8% GDP expansion is the government's pledge and responsibility." This U-turn in macroeconomic policy from "preventing overheating the economy" to "maintaining GDP growth" implied that Chinese policy makers chose to "suspend" scheduled fundamental economic reforms that would have upgraded China's unbalanced and extensive economy. In other words, the exogenous crisis forced the Chinese policy makers to sustain the dynamics that contributed to

constant economic growth, even though they were well aware that a more sustainable development - as China's current most popular slogan has it - is the right track to be pursued for the sake of long-term prosperity.

In sum, as the international financial crisis spread from developed countries to emerging economies and as it spilled over from the financial sector to the real economy China, has not remained immune to the recession in the West, but neither has the exogenous financial crisis caused an endogenous economic meltdown and/or social turmoil in the country. In some respects, as Bobo Lo (2010) argued, the crisis has actually turned out to be a blessing in that it relieved the Chinese leaders' previous concern of an over-heating economy and encouraged a reorientation of production to the domestic market.

Above we attempted to offer some reasons as to why the stimulus package worked so well economically. Now a few points to recap and expand. First, China's small oversea assets, insulated banking sector and relative independence of foreign financial institutions (e.g., World Bank and International Monetary Fund) as well as certain pressures (e.g., accusations of exchange-rate manipulation and environmental pollution) made China only "catch a cold". The cold cured itself quickly with own money and efforts, as in in the Asian Financial Crisis in 1998. Second, China's export markets have diversified considerably in recent years away from Europe and North America towards Asia, Africa and Latin America. Third, domestic economy and particularly the housing market and household consumption continue to grow. Fourth, the colossal state-led investment in infrastructure helps alleviate unemployment, particularly among migrant workers. Fifth, the centralization of the fiscal system and the "*juguo tizhi*" made the state responding to the crisis efficiently.

Conditions for Success

To get a full picture it is not enough to describe the set of selective rules employed by the state in its intervention into the economic crisis in China and to explore the socio-economic consequences of favouring the SOE sector. What is also important is to examine the conditions which allowed the party-state to perform such a role with considerable success. What kind of state power do we witness in China today? Given the overwhelming importance of the role the party-state plays in the overall policy direction to be pursued, it is a pity that no serious debate has emerged in China to conceptualize the Chinese state in a manner acceptable to the international community of social science. We would like to fill in this gap starting with a preliminary sketch on the conditions for success in the Chinese pattern of crisis management.

To begin with, the party-state of China differs significantly from both a 'totalitarian' state conventionally used in reference to Nazism, Fascism and Stalinism, and from a 'liberal-democratic' or a 'social-democratic' state in the Western sense. The Chinese party-state lies in-between these two opposite poles. and has the following general characteristics.

First, it shows the existence of an extensively developed bureaucratic apparatus with heavy networks of consultation and influence over the society as a whole. This condition is possible only when a country reaches a considerable degree of

economic and social modernization.

Second, ambitious young people with recognised educational credentials both at home and abroad are recruited into state bureaucracy. In other words, they are protected by state power to act rather autonomously according to the rules of the state's activity. Insulated from external pressures they are more able to pursue developmental goals than they would be if they were subject to external pressures.

Third, the system of governance by this kind of bureaucracy entails a considerable degree of organizational discipline, which regulates interactions. Although elements of corruption, factionalism, and clientalism exist, the party-state still maintains a discipline of meritocracy, an effective ability to formulate and evaluate national policies of development, rules of objective testing and competition as well as an emphasis on public good over private interests, public deliberation, and norms of general social welfare. Furthermore, the party-state is in a position to discipline private entrepreneurs as well as the workers.

Fourthly, there has emerged a considerable cohesion among the power elites, particularly between those who steer the economy and public security, that is, between socio-economic technocrats and the military. These two power groups are united in the belief that national wealth and military power ought to be increased through the state-led process of modernization. The internal cohesion makes it possible for the state apparatus to pursue economic policies consistently. Consequently, political dissidents are effectively shut out of decision-making processes.

A salient aspect of the Chinese party-state is that rather than attempting to reach a compromise between government and enterprise, the state, often forcefully, attempts to induce enterprises to comply with its already established goals. The state uses various means to this end, among them financial inducement schemes as well as fiscal, and tax benefits. The secret lies in the state's control of capital supply to the private sector. The state also uses such devices as loans, industrial subsidies and other legally stipulated means by which it reduces or exempts duties, alleviates custom taxes and defers debt redemption.

In the prevailing order of things the state positions itself above the private sector. This position is deeply anchored in the Confucian norm of public service and has had an enormous influence on state policy over economic enterprises. While the state plays a large role in developing state-owned enterprises it also wants to play an important role in the private sector, which it tries to discipline, albeit not in the traditional way but in a capitalist way. It is therefore not accurate to describe the relations between the government and economic enterprises as symbiotic as is often done with Japanese capitalism. Rather, the concept of a "disciplinary" regime (Amsden 1989) is more applicable. The state disciplines not only the workers but also the entrepreneurs. We may call this type a bureaucratic authoritarian state with built-in emphasis on economic growth.

However, this description involves idealization. The fact is that although the Chinese state turns out to be highly successful in accelerating economic growth it is undeniable that it also has serious limits and contradictions. This leads us to ask whether the Chinese ruling elite are aware of the possibility that the Chinese

pattern of crisis management described above could in the long term store up problems, such as large amounts of bad loans.² We would like to tease out how such a scenario would be likely to impact the future of China, particularly with regards to democratization. Since a sustainable democracy must come from within instead of being imposed from without we put a premium on domestic changes in China and pay close attention to attitudes and actions of the power elites and other social groups.

Political elite: Consensus on stability

In China as in other countries, the paramount concern of the government is regime longevity. Though political factions exist and matter,³ a consensus among most Chinese leaders since the “reform-and-opening-up policy” in 1978 has been to promote a stable and fast economic growth at all cost as the key to maintain regime legitimacy,⁴ while other issues(?) have become secondary. Any project believed to jeopardize economic growth is to be postponed, suspended or even abandoned.

This attitude of Chinese leaders is pragmatic. Actually, even during the 1980s when some of them showed great enthusiasm for “political reform” their ultimate purpose was still to use democracy as a tool to realize “modernization” (Pei, 2008). The Tiananmen Movement in 1989 and the collapse of communism in Eastern Europe taught the Chinese political incumbents two lessons: 1. Democratization creates elite defection, and 2. Liberalizing politics prior to a successful economic reform contributed to the fall of Soviet Union. Intellectually, most Chinese leaders recognize the need for democracy but their enthusiasm for political reform is diluted by long-standing apprehensions about political and social stability. As a result of the “maintaining stability as top priority” mentality, Chinese post-Tiananmen strategy has been to implement gradualist reforms in economic areas, while using coercion, cooperation and selective repression in the

² For example, Government revenues were forecast to total 7.403 trillion RMB, leaving a deficit of 1.05 trillion RMB, or 2.8 per cent of projected gross domestic product (GDP) in 2010.

³ Conservative communist bureaucrats have been widely regarded as “obstacles” to democratizing China since they defeated liberal officials after the Tiananmen tragedy in 1989. Many commentators therefore pin their hopes on a new split of incumbent political leaders into a liberal/reform group and a conservative/status quo group. Their theory, which constitutes a strong tradition in Chinese studies called factionalism (Tsou, 2004), claims that during political strife the liberal/reform group in cooperation with social democratic forces, the middle class and the labor unions, defeat the conservative/status quo group for political democratization. Thus, reporters and scholars always show great enthusiasm for predicting the future of democratization in China by selecting the topic of “factional politics” out of public or secret sources. The “conflicts” among supreme political leaders, however, erode their consensuses. Without appreciating their preference for political stability we cannot explain the relatively smooth hand-over of power among top Chinese political leaders since 1992, including the transfer of paramount power in 2002, even if each time the Western press continues to find “factional tensions” that could jeopardise the hand-over as they did from the 1960s to 1980s.

⁴ There are also other motivations for the party to put “socialist modernization” (especially via economic development) on the agenda as their priority. For example, given the modern history of humiliation under Western aggression, the dream of a “strong country” was embedded in the minds of Chinese people. Thus, understandably, for some Chinese, when democracy could not deliver such a “strong and prosperous nation,” who would want democracy?

political domain to foster a resilient capitalist authoritarianism.

This is not to say there has not been any political reform in China since the 1990s. In the past two decades Chinese leaders made some sporadic efforts to increase accountability through anti-corruption measures, solicited public input in the lawmaking process and loosened the regime's reins on NGOs. These were efforts to make some Western commentators take a softer line in their evaluation of Chinese political development in comparison to some other totalitarian regimes. For example, Tatu Vanhanen (2003), by using a resource of distribution index to compare 170 countries, claimed that China already reached the "transition level" for democracy. Yet generally speaking no substantial democratization can be confirmed since the 1990s.

Chinese leaders believe that the recipe for a successful economic transformation is the absence of political reform. Their mouthpiece, the Chinese media, repeatedly give international examples of economic magic in other authoritarian regimes (like South Korea, Singapore, and even Taiwan) and they point to political turmoil and economic backsliding in those democratic regimes (particularly in Taiwan after the "regime change" in 2000), as "hard evidence" that economic growth needs a stable political environment while democratization usually means the opening up of "Pandora's box" that endangers political stability. Social and political unrest in Central and Southern Europe since 2008, along with the collapse of America's economy and the Congress stalemate have only re-confirmed the belief in the superiority of resilient Chinese authoritarianism over Western liberal capitalism. In fact, both because of China's success relative to other leading economies and because of the country's pivotal importance in any global recovery, the diplomatic pressure of democratizing China from "core democracies", especially the US, has been largely neutralized.⁵

Chinese leaders gain even *more* confidence in the authoritarian model when they look at their domestic "achievements". If not ideologically then in practice, so far they have been relatively successful in boosting the economy and maintaining stability. No other grave political crises occurred since 1989, while the crises that did take place, such as mass protests, the Falungong Movement in 1998, the Tibet turmoil in 2008 and the Xinjiang unrest in 2009 were all eventually managed and failed to deteriorate into national political disasters.

The conclusions the Chinese leaders drew from these experiences made them chose to consolidate rather than to relax the Party's authority. Indeed, since the global downturn in 2008 Chinese leaders have been much more engaged in

⁵ For example, in December 2009, US secretary of state Hillary Clinton called for a "Pragmatic Policy" on Human Rights: human rights issues must be secondary to economic interests in U.S. foreign policy with China. "Successive administrations and Chinese governments have been poised back and forth on these issues, and we have to continue to press them. But our pressing on those issues can't interfere with the global economic crisis, the global climate change crisis, and the security crisis." She claimed. Her statement triggered angry responses from human right activists and press. Washingtonpost's comment was: "Clinton's statement will have an effect: It will demoralize thousands of democracy advocates in China." On the other hand, outside pressure for democratization failed to make any substantial change in China for the past decades. By contrary, largely due to a series of terrible strategies and tactics, Western "human right activists" and their domestic representatives has been losing its appeal among Chinese steadily.

maintaining social stability than in delivering democracy. The “Leading group to maintain social stability”, a powerful Party organ that supervises the police, the judiciary and other related branches, has been heavily funded in recent years. A research team at the prestigious Tsinghua University in Beijing (Sun et al., 2010) reported that for the first time ever at the annual session of the National People's Congress (NPC) in March 2009 the state revealed its budget to maintain public security (and social stability). The expected expenditure totals 514 billion RMB (US\$72 billion) in 2010, up by 8.9% from 2009. This is almost equal to the central government's 518.6 billion RMB budget for defense. And the 8.9% growth in spending on public security is higher than the 7.5% increase in defense budget.

Although tough on political dissent and separatist movements, the Chinese party-state has taken a surprisingly lax policy line towards the masses. Higher living standards, access to consumer goods and the huge expansion in public access to media (so long as it does not cross certain political lines) proved to be effective. Jeffrey Wasserstrom, a 30-year veteran of China studies at University of California, Irvine, argues that it is more helpful to think of China in terms of Aldous Huxley's *Brave New World* than George Orwell's 1984. “Orwell emphasizes the role of fear in keeping people in line, while Huxley pays more attention to how needs and desires are created, manipulated and satisfied” (Wasserstrom, 2010). This also falls squarely within the Chinese tradition of benevolent autocracy, and since the economic crisis left China relatively unscathed the state has ample money to continue its paternalism.

Do the Chinese leaders realise that most authoritarian regimes consolidated during the 1960s and 1970s eventually started the process of democratization? Perhaps they do. Western commentators insist that the Chinese party-state has no choice but to become more democratically accountable or China will get into big trouble. But there is no sign that the country's political elites embrace democracy (as in the “Tiananmen event”). Rather, their philosophy is “Après moi le deluge” (After me, the deluge). The political incumbents who transferred their assets abroad and/or whose children are the “newly rich” in this country, actually do not care.

Economic elite: Seeking interests inside the system

Despite the pessimism about Chinese political elite the global business community and a large number of political scientists share the optimistic view that encouraging private sector would eventually bring on a democratic transition in China. Currently private economy is already strong in China: it contributes more than 60% of China's GDP, provides cities with more than 85% of all jobs and accounts for more than 90% of migrant worker jobs. It is expected that private entrepreneurs will play the role their European counterparts did in the past and will become “a class with teeth” in the spirit of “no taxation without representation”.

The prospect, however, seems dim. Based on national surveys and in-depth interviews numerous empirical studies demonstrated that members of China's business elites show few signs of becoming the carrier of democracy or “civil society” (Pearson, 1997; Dickson, 2003). Rather, they prefer to use adaptive informal networks such as personal ties to influential officials. (Tsai, 2008).

In addition, business classes in China have more and more formal ways to express their interests. As a logical complement to selective repression, the Chinese party-state has created several avenues for linking itself with private business interests. There are various quasi-government business associations, such as the Industrial and Commercial Federation, which registered nearly 80% of private owners in 2002. In addition, the party-state is systematically co-opting “outstanding private entrepreneurs” into the People’s Congress (the Chinese parliament, PC) and the Chinese People’s Political Consultative Conferences (a political advisory body, CPPCC) at both local and national level. Even blunter, since 2001 the Party started to recruit private entrepreneurs and set up cell organizations in private companies where their party secretaries are either the owners of the companies or someone dedicated by the Party cronies. In those conditions it is hard to imagine that the economic elites would be inclined to risk a conflict with state authorities, at least in the short run. In sum, as Bruce Dickson noted, most Chinese business elites (labeled *Red Capitalists*) prefer to be part of the political system by utilizing formal or informal means in order to better pursue their interests and maximize their leverage. (Dickson, 2003: 19) Some commentators characterized the Chinese party-state’s strategy of cooperation with the private sector as one of building “state-corporatist regime” (Unger and Chan, 2006). Another, even more dramatic metaphor, was put forth by a leading public sociologist Sun Liping who claimed that Chinese capitalists have got married to the authoritarian regime (Sun, 2004).

Will their honeymoon end during the economic downturn? As mentioned above, the 4 trillion RMB stimulus package favors state-owned enterprises. While this favoritism is certainly not a new phenomenon it still raises a lot of concerns. For example, over 70% of mid- and upper-level managers surveyed by the China Economic Magazine in April 2009 expressed the view that the stimulus plan was repressing the private sector. Their anxieties are not unfounded because state-led companies that have received massive stimulus-related loans now have the means to buy private enterprises. For example, on September 2009, a consortium led by the state-owned China National Oils, Foodstuffs and Cereals Group, the country's largest importer and exporter of food, grabbed 20 per cent of Mengniu Dairy, China's largest milk producer, making the state the single largest shareholder. The state’s expansion is even more robust in energy industries. Soon after forcing the biggest and profitable private steel company to merge with a state-owned enterprise the Chinese government announced on October 2009 that the once-booming private coal companies would be closed down or merged into larger, government-owned businesses. Given these cases, it is widely believed that the economic crisis exacerbated a phenomenon known as *guojinmintui* – the state advances as the private sector recedes. Some media even used a stronger tone. They asserted the Chinese government was launching a “(creeping) (re)nationalization” movement into such industries as airlines, petrochemicals, consumer goods and metals, which previously had a record of sustained privatization.

Political leaders repeatedly deny that the government is implementing a policy of re-nationalizing parts of the economy and most analysts agree there is no formal policy to support *guojinmintui*. But still, private entrepreneurs and their representatives express their anxiety and anger via business groups, parliament and other political adversary bodies such as the CPPCC. They do not, of course, dare to criticize the party-state; instead their blusters are directed against the

colossal “Central Enterprises”, that is, the 136 large-scale SOEs controlled directly by the central government. Since government officials and the SOE tycoons usually compare giant state corporations to “the eldest son of the People’s Republic”, private entrepreneurs call themselves the “step-children” or “servant girls” of the state. This can be viewed as increasing lobbying forces among private owners (Kennedy, 2005), though the “eldest son/step-child” metaphor reminds us of a competition between children striving for the favors of the patriarch. The question is: has lobbying - or babyish tears and petulance- worked?

On the one hand, a realistic businessman must be aware that complaining is one thing but acting smart is another thing. We have no access to detailed information on the share of the 4-trillion package earmarked for monopolistic central-state enterprises, provincial-state enterprises and local governments respectively. Based on the information we do have, we assume it is extremely difficult for private capital to cut a slice of the cake from monopolistic enterprises of the central government, while certain slices are apportioned to state-owned corporations and local governments by means of sub-contracting or outsourcing. No substantial analysis can be conducted yet to demonstrate to what extent private companies lose or benefit from the 4-trillion cake but one thing is certain. The one way to gain access to bigger deals and finance has been for private firms to hook up with the state-owned firms’ patronage system because state-owned firms not only have the upper hand in bidding for stimulus-related projects but they also hold the power to decide which businesses to patronage for supplies and sub-contracting jobs, particularly in the massive infrastructure construction projects. It was reported that this strategy was acknowledged and even encouraged by the Chinese political leadership. For instance, the Chinese vice premier Zhang Dejiang, during the meeting of the National People’s Congress on March 5, 2010, suggested that private businesses should lean on their state-owned “brothers” for support in time of crisis. On the same occasion he advised private businesses: “if you want to grow big, you first need to attract the attention of state-owned firms who are stronger and better funded...Once you have clenched on to the big brothers, lean on them, co-operate with them and gain opportunities to upgrade your own business, technology and management.” Zhang said (Liu et al. 2009).

On the other hand, the state also responds. For example, in April 2010 to calm the anger of private capital the State-owned Asset Supervision and Administration Commission (SASAC) requested 38 centrally-owned enterprises to exit the property market and sell or transfer their real estate businesses.⁶ As another example, the Chinese central government on May 2010 released a document called “Several opinions on encouraging and guiding the healthy development of private investment.” This document contains 36 clauses, a follow-up to the government’s policy released five years earlier, known as “36 clauses for the non-state-owned economy.” Some policy watchers believe that these so-called “new 36 clauses” are meant to be an answer to the complaints of private entrepreneurs by encouraging further liberalization of transportation, tele-communications,

⁶ Though the 78 firms have now handed in their proposals to exit from property market, they are not acting as quickly as the SASAC had expected. But there are still 16 state-owned enterprises are authorized to focus on the property market. And the remaining 16 are big ones. According to statistics released by the SASAC, at the end of 2009, the total assets of the 16 firms amounted to 561.6 billion RMB, accounting for 85% of the total property assets owned by state-owned enterprises.

energy, access to large areas of specific industry. In addition, local governments have strong motivations to keep a “local growth coalition” to let private capital take of financial pipeline of the state, because local officials need investment from private owners.

In sum, the global economic crisis has to a large extent made private entrepreneurs seek more patronage from officials. They are pragmatic and creative but they are not budding democrats. As long as most entrepreneurs still think the system generally works for them (via personal or institutional conduits) there seems little chance they will support democratization.

Cultural elite: Whether democracy is good is debatable

At the same time, the global economic crisis damaged the appeal of democracy itself in the circles of the Chinese cultural elite. This can be seen from the increased influence of “new leftists” and the conservative climate among the Chinese intelligentsia. In the 1980s, almost all independent intellectuals identified themselves as “liberals”, while intellectual dissidents were considered to be the “seeds of democracy” in the authoritarian regime (Goldman, 1995). But after 1989 the intellectual climate changed dramatically. A group of scholars known as the “new left” emerged in the 1990s as a response to the fall of the Soviet Union, the harsh neoliberal shock therapy imposed upon Eastern Europe, the massive marketization of State-Owned Enterprises (SOE) and the dismantling of social welfare that began in China since 1993. Their opponents identify themselves as “liberals”. The debates on almost all issues, including democracy, between the “new left” and the “liberals” divided the Chinese intelligentsia into two basic camps.

It must be stressed, however, that in China the terms “new left” and “liberal” produce somewhat different associations in the popular mind to those in the West. The New Left is mainly striving for a “Chinese alternative” consisting of a state-interventionist economy and nationalism based on the Chinese traditions, while liberals are keen to promote private property and individual freedom. As for democratization, both camps generally embrace “economic and political democracy”, but they are in sharp disagreement over how and when to democratize China. Liberals argue that it is only through democracy and direct and open elections that China could overcome its problems with corruption and distributive inefficiency. The Chinese leftists by contrast criticise (liberal) democracy for having deteriorated into a “money game” in developed countries and a “smoke grenade” of “colour revolution” in the developing economies (e.g., the former USSR and Balkan states), which either causes domestic unrest or populism, or activates regional conflict and civil war. Furthermore, they argue that a breakthrough in political reform in China should not be a new political system in which people choose their leaders in free elections. Instead, what is more important is to push party leaders to stay in touch with the people and provide a popular check on corruption by means of “mass democracy” or “participatory democracy”. “The people express their will and the government becomes responsive to it. That is what democracy is”, said Wang Shaoguang, a political scientist at Hong Kong Chinese University and a leading scholar of the New Left Chinese intellectuals when he was introducing his new book *Four Lectures on Democracy* (Wang, 2008).

It is widely believed that “New Left” ideas receive support primarily from young people, nationalists and sometimes the party-state, especially after the current Chinese administration promoted the ideal of “building harmonious society” and launched a movement to resist “universal values” (an euphemism for human rights, legal systems and democracy in China). The Liberals’ discursive power has been steadily declining so that one scholar with a government background had to publish a book with the specific title “Democracy is a good thing” (Yu, 2007), which was meant to indicate the Chinese government has not abandoned the idea of democracy. As a matter of fact, the new leftists have more global influence than liberals in the international intelligentsia. This is partly because with a few exceptions almost all members of the Chinese New Left were educated in or were invited to prestigious Western universities as long-term visiting scholars. They are therefore usually theoretically inspired by - and are better connected with - their “mentors” in Western New Leftist circles. In addition, they often publish in international journals and some of them even serve on editorial boards of top English language journals. By contrast, most Chinese liberals have been educated in China and publish mainly in Chinese. To make things even “odder”, the “New Leftists” are not party intellectuals. Instead, most of them work for the most prestigious universities in mainland China, Hong Kong and even in Western institutions, while several leading “liberals” used to be or still are members of government/party organs or think-tanks. This contributes to a very bizarre scenario: Western educated intellectuals are more likely to oppose Western democracy. “Oppose”, of course, might be a strong term since the New Leftists usually prefer to identify their stance with the expression “Not to oppose but to rethink” (Mierzejewski, 2009).

The ongoing global financial crisis has apparently allowed the Chinese New Left to enjoy more discursive power. Several leading New Leftists, echoed by their even more influential Western mentors (Arrighi 2007; Stiglitz, 2009; Jacques 2009; Anderson, 2010), vowed to construct a new authoritarian “political civilization”, one superior to (liberal) democracy on the account that the global financial crisis discredited laissez-faire Anglo-Saxon capitalism and strengthened the case for greater state control (Cui, 2009). These arguments find resonance with the economic package and the ideological assertions of the Chinese party-state.

Neither “liberal” nor “new left”, of course, constitute clearly defined intellectual circles and a large number of the cultural elite actually do not identify themselves with either of these two camps. Yet, most intellectuals who do have clear “labels” choose a pro-meritocracy rather than pro-democracy stance for economic and political rather than intellectual reasons. Since the 1990s increasingly talented intellectuals, scientists and technocrats are being recruited into the existing system as “interest shareholders” by offers of abundant government funding, affluent living conditions and prestigious political/academic titles. To some extent this is what happened in Hungary during the reform communism era when the Party recruited technocrats to key positions and when intellectuals became a class on the road to power (Szelényi and Konrad, 1979). These are the same cultural elite who were sympathizers or even radical activists in democratic movements of the 1980s but who are now no longer involved in any radical effort to democratize China, even if they have still not completely lost their faith in democracy.

“Crisis of crisis management” as a new beginning?

The political consequences of the socio-economic intervention by the state in response to the crisis need to be examined more carefully. According to a “transition model of crises” formulated by Offe (200?) the state is assumed to be the major actor of intervention. If crisis management works, the crisis may be diluted or suspended. If it fails, however, a “crisis of crisis management” is likely to occur. Then, the original crisis may be aggravated. If the crisis is blamed on the regime itself, a legitimacy crisis may emerge. The economic crisis may then be transformed into a political issue and various reform-minded elites and social groups might start to mobilize for action.

We argued above that the crisis management adopted by the Chinese government has worked well so far: the ongoing global economic downturn itself, which is basically an exogenous crisis to China, has not activated any domestic “time bombs”. In this situation one could conclude that Chinese political, economic and cultural elites have, by their own account, a weak momentum to launch any substantial top-down project to democratize the country; instead, the “path dependence” of building capitalism without democracy may be enhanced owing much to the success of the Chinese interventionist stimulus package.

Yet another interpretation is possible. One may be inclined to view China’s stimulus package as one that in the long term does not solve but somehow exacerbates the already existing economic, social and political problems. Therefore, we want to analyse the recent increase in protest activities by migrant workers, peasants, other citizens, and even “netizens” to see whether they are likely to become an endogenous political power for inducing change.

In this context two questions deserve our attention. First, what kind of political consequences can be anticipated if the current crisis management fails? Second, and conversely, what new possibilities may emerge if the crisis management continues to be successful and as a consequence the urban middle class along with the working class increase not only in numbers but also as potential voices of opposition? The latter option requires us to take a bottom-up perspective rather than the mainstream view of the ruling elite.

Many experts on China monitor closely the frequent eruptions of public protest throughout the country over various issues, which involve complaints related to working conditions, local government corruption, land seizures and so on. For instance, since late May 2010 a multitude of serious strikes took place at several Honda assembly plants in the nearby Pearl River Delta cities of Foshan and Zhongshan. “Chinese workers challenge Beijing’s authority,” cried *The Wall Street Journal* headline on June 13, 2010. The headline reflects the common perception of the international community in which millions of Chinese migrant workers could become a powerful social and political power if they joined forces to protest working conditions, low wages, and possibly other sources of grievance. (Lubman, 2010) In the past decade several scholars claimed the nascent making of the working class or the formation of a citizenship consciousness (Lee, 2007; Shen, 2007).

Not only working class but other social classes have been expected by sociologists and political scientists to become the potential actors building a civil society in

China. For example, sympathetic attention has been drawn to the rising number of new homeowners in cities who have formed self-managed committees to organize and pursue their interests and to resist the unfair treatment by local governments and government-linked property developers. These middle class citizens engaged in collective assemblies and movements are seen to represent a real, if tentative, manifestation of civil society (Read, 2003; Bi, 2006).

However, it is an open question how to interpret the meaning of these rapidly increasing collective manifestations. It may be too hasty to see this political reawakening as a demand for a liberal democratic change in the Western sense. Instead, participants in these activities seem to focus more on issues related directly to their economic interests, property rights and social justice. In this sense the conflicts may be more “conflicts of interests” than class or identity conflicts (Sun, 2006).

Therefore, the foremost question is what is new in those recent occurrences of collective movements? At a glance two things are new. First, the striking workers belong to the younger so-called “80’s and 90’s generation”. Second, in the Honda plant in Zhongshan, workers formed a factory council, which a *New York Times* article characterized as a “sophisticated, democratic organization” demanding the right to form a trade union separate from the government-endorsed one. These two characteristics can be viewed as a political awakening of young Chinese migrant workers (Pei, 2010).

But a new puzzle emerges. A series of suicide attempts by migrant workers shocked China: 14-16 young workers tried to kill themselves (resulting in 12 deaths) in just the first five months of 2010 (three in the last 10 days of May) in a single giant factory complex of Foxconn in Shenzhen, the world’s largest contract electronics manufacturer for major brand names such as Apple, Dell and Toshiba. “Why the same young migrant workers in Foxconn chose to commit suicide individually while their cohorts in Honda acted collectively when they faced similar factory regime sweatshop?” Shen Yuan, a sociologist and steadfast supporter of labor rights, asked this question during a seminar at Tsinghua University on July 2010 when a group of eminent Chinese labor experts were listening to a speech on “global working class movement” by Michal Burawoy, another sociologist and passionate supporter of labor empowerment. There may be different answers on this question but many would agree that it is still too early to talk about the emergence of working class radicalism among the Chinese youth.

The fact is that both the suicide and strike events brought about a raise in workers’ salaries. At Foxconn, the company hastened to introduce damage-control measures by offering raises of about 25 percent to workers. In Honda the strikes ended after two to three weeks with the workers winning 10 to 30 percent raises. In addition, the Chinese government put the motion of “collective bargaining over payment” on its urgent agenda and started to modify its “minimum down-payment requirements” by asking companies to raise salaries in a direct proportion to the increase of their profits. Raising salary, if truly implemented, can be an achievement of huge significance both economically and politically. Economically speaking, it has been widely accepted that the secret of the “Chinese magic” relies on cheap labor; while economists extol this model as “comparative advantage” (Lin and Chang, 2009), critical scholars see it as “low human rights advantage”

and even compare it to South Africa under Apartheid (Qin, 2009). It is uncertain whether rising salaries will jeopardize the comparative advantage of Chinese enterprises. A critical view is that the increase of the “lowest wage standard” is less than 40% of local average pay (South China Morning Post, 2010). Yet Steven N.S. Cheung, a provocative “right-wing” economist in Hong Kong, warns that “collective bargaining” will cause more strikes and is a bad idea for the Chinese economy (Cheung, 2010). In fact, Foxconn confirmed it will move its manufacturing base from the coastline city of Shenzhen to an inner city, which increased competition between several inland local governments. The effort of “collective bargaining over payment” by central government therefore could be muted, in a manner similar to that of the new labour contract law, a pro-labour act that went ostensibly into effect on January 1, 2008 but was never effectively implemented.

The possibility of democratizing China from below has been discussed for quite a long time. The “village elections” that mushroomed during the early 1990s is a case in point. It seems that the Chinese people have a paradoxical attitude toward democracy. They want democracy as evidenced by nationwide surveys yet they have different focus and understanding. As Harry Harding argues, “Even Chinese who advocate political reform may have a different definition of democracy than is common in the West. Many Chinese appear to favor a freer press, an effective legal system, and a more active legislature, but are uncertain about the desirability of truly competitive elections and independent political organization”(Harding, 1998: 11-17).

Other observers draw attention to the popular desire for improved standard of living and social stability. Andrew Walder, a leading political sociologist at Stanford, noted there was a nationalistic sense of pride in China’s rise as an economic and political power and as long as things continued the way they have in the recent past the Chinese people were unlikely to turn against the regime (Walder, 2009). Such mood has become even stronger after the global economic downturn. During the November 2009 APEC Summit when Michael Elliott, *The Time’s* international editor, claimed that China is not a democratic system, Singapore Minister Mentor Lee Kuan Yew retorted: “You got your pro-democracy activists, but do the Chinese people worry about their vote and freedom of speech? They want the lives that they see in Hong Kong, in Singapore and before this downturn, in Taiwan.”

In a book based on field research on the popular conception of disparities in wealth, Martin King Whyte, a Harvard sociologist and specialist on China, finds that Chinese people have an almost American level of tolerance over the accumulation of individual wealth, which they attribute largely to effort and education. This is in contrast to the negative feelings evoked by the emergence of a class of newly rich in post-communist East European countries (Whyte, 2010). Whyte’s book is echoed by Xie Yu who argues that although to a large extent inequalities are generated by some collective mechanisms like work units and regions, traditional Chinese political ideology makes Chinese people believe inequalities are the inevitable outcome of economic development and therefore social inequality per se is unlikely to cause serious political or social turmoil in China (Xie, 2010).

As in many other countries, competing views on democracy and its future prospects also emerged in China, as the debate between the New Left and the Liberals indicated. While there is no one dominant official view on the subject, mainstream opinion tends to see the future of China from the perspective of the ruling elites in politics, business and culture. Seen from that angle, there is no apparent reason to launch a reform toward democracy from the top since the party-state is capable of managing crisis and regulating and controlling social unrest effectively while ordinary people want to keep social stability and economic growth and can conceive of no reasonable alternative to the current regime. The confidence generated by the so far successful crisis management reinforced this dominant mentality, leading one to come up with the idea of a consolidated bureaucratic-authoritarian state with an organic commitment to economic growth as a new brand of political regime.

The feasibility and viability of this view hinges to a very great extent on whether the Chinese economy will continue to grow. Ruchir Sharma, head of the Emerging Markets Branch at Morgan Stanley, likened China's possible fall below the 8 percent official growth target to the story line of the Hollywood thriller *Speed* in which a bomb on a bus was set to detonate if the vehicle slowed to below 50 miles an hour. "In China, the bomb would be triggered by the slump in job creation and explode in the form of labor unrest"(Sharma, 2010).

Many observers worry that despite China's dealing well with the crisis so far, an economic recession has been merely delayed. China's consumer price index (CPI), the main gauge of inflation, broke 3% in July 2010; local governments suffer from high budget deficits; and the popping of the housing market bubble is believed to be just a matter of time. From the point of view of a structural reform, the Chinese government declared in 2008 its intention to cool the "red hot economy" by cracking the "GDP worship", but this effort was interrupted due to fears of economic slowdown. Inherent problems, such as weak domestic demand for consumer goods, have not been solved but grew worse. As a recipe, the Beijing government wants to gradually downsize its huge stimulus package, but that is not as easy as its launch on July 5, 2010. On that occasion, Premier Wen Jiabao said Chinese economic policies "face increasing dilemmas" since China cannot hold back steps to "solve current significant and urgent problems" while at the same time "laying foundations for a stable and relatively fast economic growth in and beyond 2011." In July 2010, China decided to abandon the fixed exchange rate of the currency to the US dollar. The government also adopted restrictive policies for the housing market. Some analysts started to worry about what will happen if the economy slows down. In sum, there is no easy way out of this dilemma.

As Huang Yasheng noticed, a gradual wage increase would be better for China economically because there are long-standing supplier relations designed with a particular level of wages. (Huang, 2010). A sudden switch from a policy of keeping wages low to a policy of boosting wages—not only for workers but also for other labour groups - is widely regarded as the likely (rhetorical) response by the Chinese central government to the increasing populist demands from lower and middle classes. The absence of such a switch will definitely disappoint the expectations of the Chinese society and, ironically, will de-legitimize many of Beijing's post-1989 policies, among them forcing tens of millions of ordinary Chinese to make enormous personal sacrifices by accepting low wages and giving

up their land and apartments. As one commentator accurately pointed out (Pei, 2010), “now the Chinese government faces a dilemma: it raised people’s expectations but meeting those expectations would be economically costly (more redistribution and social welfare) and politically risky (greater popular political participation).”

Concluding Remarks

It is believed by many observers that, if the booming Chinese economy stopped someday, radical movements would occur and challenge the authority of the party-state and revolutionary change could take place in response to public demands for social justice and equality. In our opinion, however, it is uncertain whether the possible in such circumstances rupture and antagonism would lead to institutionalizing democracy. Historical experiences show that, when threatened by the radical movements from the bottom, the middle class tends to support authoritarian counter-movements, thus contributing to political polarisation.

On the other hand, it is an open question whether or not and, if so, to what extent the basic assumption of modernization theory could be applied to China. To be sure, the expectation that rapid economic progress may help liberalize the political system still remains to be tested in China. Though the record of political progress lags behind expectation it is important to remember that the party-state of China is not a fixed system closed to changing environments but has evolved in a specific way, gradually enlarging the avenues of political consultation and participation rights. If we take a broader understanding of democracy rather than a narrow conception based only on electoral competition, we can perhaps better understand the political development that has taken place during the last several decades in China.

What is suggested here is that not piecemeal change from the top but increasing demands for change from the bottom might result in political evolution. There is ample evidence to demonstrate that contrary to the mainstream view of the ruling elites, the “grassroots segment” of the Chinese middle class lacks trust in public authorities and is far more disillusioned than its mainstream segment with the performance of the party-state of China as far as social justice and fairness are concerned (Han, 2009, 2010). Likewise, the grassroots segment is far more actively engaged in civil initiatives of various kinds and is supportive of democratic change in China. This amounts to saying that the potential for democratic change is developing from the bottom up, although it is not clear when and how such a change might eventually come about.

As O’Donnell and Schmitter (1986) argued, the landscape of democratic transition is shaped significantly by the relationships among political elites, particularly the hard-liners and soft-liners within the ruling bloc as well as the radicals and moderates within the opposition camp. The best available option for this is democratic transition in terms of negotiation between the reform-oriented soft-liners of the ruling bloc and the reform-oriented moderates of the opposition camp. This scenario may become more realistic when increasing numbers of the middle class and the working class start favoring a negotiated transition to democracy rather than war-like violent confrontations. One may expect that China will eventually follow its own path of evolution along this way.

Coinciding with the movie “2012” mentioned at the beginning of this chapter, that particular year will be important for China as the Party’s 18th National Congress will be held then and a new generation of Chinese leaders will come to power. But mainstream thinking can perhaps already be gleaned from the proclamations made by Xi Jinping, the country’s current Vice President, who is expected to become the next General Secretary of CCP in 2012 and in 2013 possibly also the next President of China. During his visit to Mexico on February 16, 2009, Xi proudly stated that China had already made a significant contribution towards overcoming the financial crisis to the world by keeping its role as an engine of global economy. He is reported to have added: “there are a few foreigners, with full bellies, who have nothing better to do than try point fingers at our country.....China does not export revolution, hunger, poverty, nor does China cause you any headaches. So, just what else do you want?”

The phrase “having a full stomach and nothing better to do” is meant to insult cynical troublemakers. Though Xi’s speech was quickly deleted from websites and news reports by censors inside China, some observers still feel anxious about this inflammatorily “extemporaneous address”. As an alternative, one might be tempted to think that a low-level performance or even a collapse of the Chinese economy might provide a better chance for democratic change. Here we disagree. Although such a scenario might trigger a collective effort towards democratization it might also invite a civil war. The question thus is not *whether* China will become democratic but *under what conditions*, and this requires further sober analysis and reflection.

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