

Explaining the Rise of China: A Challenge to Western Social Science Theories?

Panel sponsored by the Harvard-Yenching Institute and the Fairbank Center for Chinese Studies
Harvard University, April 5, 2010

Panelists:

Sebastian Heilmann

Professor of Comparative Government and Political Economy, Trier University

Kokobun Ryosei

Dean and Professor, Faculty of Law and Politics, Keio University

Barry J. Naughton

Professor of Chinese Economy, Sokwanlok Chair of Chinese International Affairs, University of California, San Diego

Pan Wei

Professor, School of International Studies; Director, Center for Chinese and Global Affairs, Peking University

Wang Hui

Professor of Chinese Language and Literature, Tsinghua University; Harvard-Yenching Institute Pusey Scholar, 2010

Moderated by **Elizabeth J. Perry**

Henry Rosovsky Professor of Government, Harvard University; Director, Harvard-Yenching Institute

ELIZABETH PERRY:

Welcome. I'm Liz Perry, Professor of Government here at Harvard, and also Director of the Harvard Yenching Institute. It is a great pleasure on behalf of the Institute to welcome you to this panel.

Today we have an international, interdisciplinary group of distinguished China scholars to try to make sense out of one of the most important questions of our day: what explains China's stunning economic achievements over the past 30-plus years, while at the same time maintaining relative political stability? Why is it that China, after most of the Communist world has collapsed, has nevertheless maintained its political system, basically unreformed, while presiding over this extraordinary

economic growth. Thirty years ago, virtually no one foresaw that China would be able to achieve the kind of sustained economic progress that it has enjoyed in the post-Mao era. Still less did anyone think that such an accomplishment would be possible within the confines of a Communist system. This raises a second question of considerable analytical significance, not only for China scholars but for comparativists as well: does the China case pose a critical challenge to certain basic social science assumptions about the relationship between economic and political change? Is China on a trajectory that defies standard Western predictions about the connections among markets, civil society, and democratization? Or is the People's Republic of China simply a case of democracy delayed?

If the Chinese case does indeed depart significantly from standard models of transition and transformation, what wider lessons can we draw about this experience? Practical lessons for other developing countries, perhaps, and analytical lessons for social science. In today's roundtable, we'll hear from Chinese, Japanese, German, and American scholars; an economist, several political scientists, and an intellectual historian. We'd also planned to include a scholar from Taiwan; Professor Chu Yunhan of National Taiwan University had accepted our invitation but unfortunately he pulled out just a few days ago.

I would like to begin by thanking the panelists for making this very long journey, in a number of cases, to be here. I'd also like to take this opportunity to thank Lindsay Strogatz, who's done all the hard work in organizing this conference. I'd like to thank the Fairbank Center for Chinese Studies here at Harvard, which is cosponsoring this event with us, and of course I'd like to thank all of you for attending.

I'll ask each of the panelists to speak for ten to fifteen minutes to offer what I've encouraged them to present as rather provocative comments. There certainly will be a chance for substantial audience participation toward the end.

So again, it's my great pleasure to welcome all of you here and we will start out today with Professor Barry Naughton. I will not give long introductions - I think each of these very distinguished speakers is quite well known to most of you. Barry is a very distinguished economist of China, teaching at the University of California at San Diego. He has written widely on the political economy of China and he'll get us started off. Barry.

BARRY NAUGHTON:

I know that it's really bad form to disagree with your organizer, but I do want to distance myself a little bit from something that Liz just said, which was that nobody predicted the economic growth that China would experience over this 30-year period. I think that's not really quite true, but I certainly agree with what she said immediately thereafter, namely that almost nobody anticipated that such a growth performance would be possible within the basic political framework of the Chinese Communist Party. It was very hard to envision change of the magnitude of what

China was starting to go through, but we did sort of take it for granted that that change would involve a broader set of political and social changes, or at least a different set of broadly based political and social changes from what we actually saw. So let me start out with just this sort of brush clearing, and hopefully I'm doing a service for all of us and for the panel just to try and separate that part of the Chinese experience that is far from miraculous.

That is to say that, in a sense, the basic overall economic transformation of China really is not a puzzle or a mystery. It fits very, very well into most of our theory and understanding of economic change. In the first place, of course, China's growth miracle recapitulates what happened in Japan from the 1950s on through the mid-1970's, what happened in the so-called four Asian tigers, or small dragons. It's a process of economic transformation that's pretty familiar. Dwight Perkins, Harvard's own Dwight Perkins, wrote a great little book in 1986, essentially saying, to oversimplify, that what happened in Japan and Taiwan and Korea, would happen in China, and we would see this kind of dramatic growth. So I think in that sense, we could foresee the basic outlines of the economic transformation. And, in fact, when you do these sort of cross-country analyses, once you plug in China's investment rate, and the pace of structural change from rural to urban, there's not much of a residual. In other words, China sort of fits the cross-country pattern. We can certainly add to this the fact that in the most recent decade, we certainly seem to be processing into a different kind of globalization. Where earlier, small countries like Korea and Hong Kong were especially well-placed to link into the global economy, whereas now we see Brazil and India as well as China hooking into a new dynamism. Obviously China has lots in its past that would lead you to predict economic success, such as that it was a very sophisticated commercial society. But, more than anything else, China's investment effort was huge. So here's my required economic graph. The investment rate -- that blue line -- shows that from the beginning of the economic reform period, China's investment rate was already pretty high, 30% of GDP, and then unexpectedly, especially if you think about some of the rhetoric at the early period of the reform period, that investment rate then started to creep up. By the decade of the 2000s, the investment rate was pushing up above 40%, and of course last year in the context of a crisis emergency stimulus program, the investment rate is around 46% of GDP. This is absolutely unprecedented.

So if we can say that China's overall growth transformation has many precedents, what we can't say is that the investment effort is similarly ordinary -- quite the contrary. It is the most dramatic devotion of resources to investment as a share of GDP of any economy that we've ever seen in world history. That is striking and it needs to be explained, but at the same time, it means that the growth experience is pretty easily explained by this massive investment effort. So this is the dumbest of all indicators that economists use to relate investment and growth. It's called an incremental capital output ratio. Very simple, it just says, how many dollars of investment in a given year, or RMB of investment, are associated with an increment in output of one RMB. What this shows is that, when there are crises, this number bounces up a little bit, up toward six or seven, those are the peaks in that. But overall,

China has an incremental capital output ratio around three that creeps up to four, namely you have to put four RMB worth of new buildings and machinery into play in order to get one RMB of increased output. And that is fine. That's a good level in comparative terms. That's what you see in Thailand or other middle-income developing countries, and it's much lower -- in other words, growth is less expensive - - than it is in a developed country, which typically takes more investment in order to produce an increment to output. So when we put those things together, a very large investment effort combined with a relatively stable bang for the buck, a relatively stable return to investment. (We don't see any indication that the rate of return to investment is declining in China. Of course, this last year is very special, very different in terms of long-term secular trends, which is all we can really use for this, for such a simple measure.) So in other words, the government was creating an economic system that poured resources into investment and thus into the growth process. Other aspects of the system were at least sufficiently robust that the average rate of return to this investment stayed strong. Well, you put those two things together, particularly in the context of an economy making the transformation from a rural to an urban society, and what you get is sustained, very rapid growth. You get that and you would expect to get it.

What's surprising, then, is not that fundamentals of the growth process, but rather the fact that it has been able to hold together as a powerful, dynamic whole throughout this extended 30-year period. If we say that economists did predict rapid growth, that's true. What they didn't predict is how rapid it's been and how untroubled it's been. I'm sure if you asked Dwight Perkins back in 1986, well, what's the average growth rate going to be, he'd say, "well I don't know, it could be up 8, 9, 10%. But presumably it will be interrupted by crises and problems at various times." And yet, when we look back over the last 30 years, there haven't been any really, really substantial crises yet, so far. Growth has continued and the result is that China has grown faster and longer than any other economy for which we have any kind of historical records. So it's remarkable, but the question then that surges to the top and the one that I want to leave as a legacy to the rest of the panel members, after making a couple of observations on my own, is; what's the relationship then between this government-dominated system and the sustained, high-quality growth performance? In particular, why doesn't government failure impede this dramatic growth process? I'm going to stop showing slides now and shift to just a conceptual basis.

One thing we've learned from the economic growth process in comparative terms ever since 1945 is that although the logical relationship between things like investment and structural change and growth is very strong, our ability to use these logical relations in a cause and effect way, or in an "instruments creating growth" way, is extremely limited. So even though there's this very, very strong relationship between investment and growth, logically and otherwise, when we look back at the experience of policy-makers who've tried to maximize investment in order to accelerate the growth process, the result has largely been failure. In other words, when countries simply create mechanisms to launch a large number of large-scale investment projects, the outcome of these projects is extremely poor. In fact, in a

large cross-country analysis, there isn't a significant causal relationship between higher investment and more rapid growth in the short period in certain types of empirical work. So even though the logical relationship is strong, the causality is weak.

The other mystery here is why state planning and state ownership, which seem to have failed so thoroughly in other contexts, have still managed to play an important role in this Chinese system where the return to investment has remained high. These questions point us to one obvious observation about the Chinese system. That observation is this: when we start to ask the question about why the Chinese investment effort has been so large and so productive, we're immediately drawn back to the totality of the Chinese political economic system. In other words, there isn't a single lesson here or a lesson there. There aren't elements of Chinese practice that are so much associated with outstanding performance. Rather, what we see is a system that as a whole has been tailored, tuned, pruned, focused, and rebuilt around the process of economic growth. We say that the authoritarian system has been unreformed, and of course certainly that's true in a way -- in a sense it has never been democratized in terms of the way that many people expected. But the functioning of that authoritarian and hierarchical system has been very dramatically altered during the course of the last 30 years. It's been altered according to the same kind of gradualist, trial-and-error process that the economic system has been altered by. The incentives that are at work in this system have been dramatically changed to reward people who foster economic growth and also, to a dramatic extent, to foster investment as well. The monitoring system has been dramatically intensified so that the people who work for this system are under intense pressure to deliver results and are closely watching in part because the temptations are so great. Career paths have been altered to reward the kind of performance the system required. There's extensive consultation across different government agencies and with technocrats outside of the government in order to test out different kinds of policies. Also, the state enterprise system has been restructured in a way that allows state enterprises to raise substantial amounts of money as profits and through the banking system to then go further into investment and keep this investment system - this very powerful system - going.

So in other words, when we look at the Chinese system, what we see is a system that's highly authoritarian, but still is tied increasingly tightly to the single goal of economic growth. Now, we don't know what exactly what public opinion is in China, but I would say from my observations that economic growth comes about as close to a widely held social consensus in China as any other value. In other words, we see an authoritarian system tied to a set of values that are very strongly held in Chinese society. Namely, China should grow. China should develop. China should take its place among the leading developed countries in the world. And of course, China this year was passing the threshold of a middle-income country, so this objective is close to becoming reality.

Let me end, then on just one point. This very tailored, comprehensively designed system has succeeded remarkably well. First, as a substitute for what we might think

of as the “Washington Consensus” prescription of strong property rights, private ownership, a strong legal system, and of course, ultimately, democracy. As far as we can see from performance, it's been an adequate substitute. Second, it seems to be extremely well suited for this stage of economic development where people are leaving the countryside, where massive investments are required, where it's relatively easy to predict the kind of infrastructure that needs to be built, particularly because you can look at forerunner countries, like Japan for instance. So the question that to me comes up the most and that I'll leave us with is: will this system continue to be able to be a good substitute as China enters a new phase of economic development? As the people have left the countryside, as China increasingly is an urban society, as the choices for investment become less obvious, as the demands for consumption become larger and more varied, will this system continue to be a well-tailored system? And if it isn't, what's going to replace it?

KOKUBUN RYOSEI:

Today I would like to try to examine China's current development by analogy with Japan's post-World War II developments.

When I was at Harvard in the first half of the 1980s, America still did not have all that much concern about China, the concern was rather about Japan, which was suddenly rising to prominence. It was in 1968 that Japan outstripped West Germany to become the second largest economic power in the world after the United States. This was exactly four years after the Tokyo Olympic Games. Three years later, there were the Nixon shocks, one of which was the suspension of the dollar, the convertibility into gold, as a measure for defending the U.S. dollar due to the Vietnam War. After that point, the dollar-yen exchange rate had been fixed at 360 yen to 1 dollar. Unable to withstand the pressure, Japan revalued the yen repeatedly, but then finally switched to a floating-rate system in 1973. Now the dollar is 90 yen. Then there was the first energy crisis in 1974, and Japan started a so-called “energy diplomacy,” mostly to the Middle East because of Japan's scarce resources, and the summit conference of the leaders of advanced industry of countries, today known as the G-8 was launched in 1975 as the G-6 with Japan included in its ranks.

The book by futurist Herman Kahn entitled, *The Emerging Japanese Super-State*, was published in 1970 and Professor Vogel's, *Japan as Number One*, was published in 1979. In the 1980s, the emergence of Japan was debated everywhere in the world and the theory of the Japanese threat also appeared. It was even called an evil empire -- more dangerous than the Soviet Union! Looking back today, it was all quite flattering. At that time, there was a boom in Japanese-style management, and it was taught at many American business schools. I moved to the University of Michigan in 1983 but was afraid to go to nearby Detroit. This was because of a large number of unemployed workers who had lost jobs at GM and Ford due to steep competition with the Japanese autos. Although I maintained at the time that the theory of Japanese threat was not true, to be quite honest about it, there was a place somewhere at the

back of my heart where I felt a small amount of happiness about the assessment of Japan's abilities. I would bet that the Chinese people today harbor a similar mindset.

Due to the Plaza Agreement in 1985, the yen value rose abruptly, and Japanese corporations began moving their production bases overseas. After that, public projects – those done by government spending -- were expanded domestically in Japan in order to increase internal demand. This resulted in real estate speculation and a bubble economy. Then in 1990, immediately after the end of the cold war, the bubble began to collapse, and the Japanese financial industry battled for a decade with the problem of a bad loans. Just when it was thought that it was over, Japan experienced renewed difficulties with the Asian currency prices. Japan is now afflicted by a shrinking of it's a market due to the trend of smaller families and the aging population. This disparity in Japan's GDP to that of China was four-to-one as recently as the year 2000. But in the last decade, China has pulled even. At its peak, Japan's GDP accounted for 18% of global GDP, and currently it represents only 8%. China is the same - 8%. The Japanese miracle, which attracted so much attention for 30 years, no longer interests anyone these days.

China's modernization line began from 1978, but I think the current growth policies essentially began with the start of the socialist market economy in 1992. In the 18 years since then, China has repeated in one fell swoop almost the exact same experience that Japan had in the course of its economic rise and fall for 50 to 60 years after the Second World War. Will it be possible for China to avoid the failure suffered by Japan?

To state my conclusion very frankly and honestly, it seems very difficult for China to avoid the problems experienced by Japan. This is because of the factors limiting China's growth and particularly, the fact that the foundation - in terms of the system and the regime - is simply too weak. I further believe that the key, the problem in all of this, is a political system. The current orthodoxy of the Hu Jintao is the building of the harmonious society (*hexie shehui*). But the reality is running contrary to this. There is a debate about the development models currently underway inside China. In the wake of the financial crisis, many specialists have been criticizing the imposition of Westernization and extolling a Chinese-style model that appears as though it may overcome the crisis. There is nothing new about the Chinese-style model so far. The same debate, which examines with such issues as state-led economic growth premised on a one-party rule, prioritization of stability and placing democracy on the back burner, the development of and deployments of etatist industry of policy, the use of Confucianism as the core value system, and so on, was all the rage in Japan from the 1980s to the 1990s. It is almost identical to the so-called East-Asian development model, or the NICs proposal, Professor Vogel analyzed that point before.

China's greatest strength at present is the fact that it has not democratized. But it's greatest weakness is also that it has not democratized. The Chinese political system probably will not become unsettled in the short-term, say the next five to ten years. I don't know - five years, I'll say. The reason's that, first of all, it has self-confidence

based on the 30-years' history of reforms and opening. Secondly, to control the market economy, so-called state capitalism, is effective in extraordinary situations, such as the global financial crisis like the current one. And thirdly, the world, first among which is the United States, Japan as well, does not want any chaos in China. But I think that there is something more crucial than this. It is the politics of vested interests due to the structural collision between China's politics and the economy. The total number of China's Communist Party members now at present is approximately 78 million people. Of this, in 2008, workers accounted for only 9.7%, while peasants represented approximately 31% - with a total over 40% of members. But their numbers are continuing to decrease and they are no longer the representatives of the proletariat. In their stead, the cadres of party and the government approximated 8%. What is more interesting is the fact that socially elite level, represented by enterprise managers, scientific and technical specialists, employees of foreign enterprises, lawyers, and so on, now account for approximately 22%. With the advent of the 21st century, Jiang Zemin announced so-called "Three Represents," and the world paid attention to the admission of private entrepreneurs to the CCP. However, the actual number is not as great as this. The group that is vastly greater than ordinary private entrepreneurs are those former CCP cadres, and their children, who have devoted themselves to the world of business, primarily state-owned enterprises (*xiaohai*). The true main aim of the "Three Represents" was to ensure the party membership of such a party cadres and their children no matter how hard they strove for embourgeoisement.

The most important thing in China is income distribution. The construction of a harmonious society is correct, but the problem is how to realize it. What is required involves the question of whether or not the financial disclosure for state-owned enterprise and the wealthy strata is possible. The tax revenue for personal income is only one quarter that of Japan, which is the lowest amount in the OECD - Japan style. Even though there are systems for the inhabitance tax and the progressive taxation, these are not functioning. The majority of the taxes in the deficit collected from the foreign-owned corporations and Chinese private enterprises under a variety of pretexts. In other words, the establishment of financial disclosure and the tax system constitutes the first step of democratization in China. However, this is likely impossible given the current collective leadership system, or to phrase it differently, this attributive politics ruled by the vested interests. The biggest problem with the contemporary Chinese political system is the non-disclosure of information, the lack of transparency, which ignores the tacit pressure from society and the inequality of opportunity rising from this. Why was Japan unable to sustain its success despite the fact that it achieved a trajectory of economic growth following World War II? Its economy succumbed to a bubble in the latter part of the 1980s. Japan became intoxicated by the successes and persisted too rigidly in its Japan-style development model. This was a state-led growth model, and it was deficient when it came to the organization of society and the individual. In order for it to have become a G-2 power in a real sense, though, Japan needed to open up its closed society, including market information and its system.

A nation-state where the individual supports society is weak cannot in the final analysis become a larger leader. It cannot become a leader of the world. Moreover, while self-confidence is a prerequisite, arrogance is dangerous. Probably the U.S. has the same problem. This is one of the lessons that Japan, which failed to become a G-2 power, holds for China. China's today extremely interested in Japan's experiences in the 1980s, and many, many economic bureaucrats and scholars are analyzing it. The key theme is, why did Japan economy experience such a bubble and then succumb to it. Many Chinese believe that this was due to American pressure on Japan to revalue the yen. The thesis holds that the result of the Plaza Agreement in 1985 was a decline in the dollar value, and a rise in the yen's value. And holding to this, many large corporations were forced to expand overseas. In addition to which, there was an effort to extend domestic demands inside Japan by Bank of Japan's policy of low-interest rates. With the result that speculation became concentrated in the land due to its scarcity value.

In the case of China, a bubble in housing due to its scarcity value is already occurring at the present before the reevaluation of the Chinese yuan. Nonetheless, if there is no alternative but for the yuan to be revalued and moreover for internal demand to be expanded, the fear that this will result in a bubble and inflation will spiral out of control is spreading. Moreover, when it comes to the revaluing the yuan in response to the American's request, following pressure, the problem of face (*mianzi*), lies at the heart of the China's true feelings about the matter. In reality, the Chinese have not the fully learned lessons of Japan's earlier failure here. For example, despite the fact that Japan should have devalued the yen, earlier the Plaza Agreement, it did not do so. The switch to a floating-rate system occurred in 1973, after which, Japan was not able to revalue the yen owing to the domestic and political demand despite growing economic frictions with America for a long time. So reevaluation of the yen was put off until the 1985 Plaza Agreement. This was more the resolution of the United States than this a decision by Japan. Had Japan implemented the gradual reevaluation of the yen from a earlier point in time, it is possible that no bubble economy would have occurred. These are the lessons that I have myself learned from many, many Japanese officials in charge at the time. In other words, it is crucial for China to learn the lessons of Japanese experience, but I'd like it to do so without mistakes. Thank you.

SEBASTIAN HEILMANN:

Liz asked us to go for the big questions. So I will address, what's wrong with the marketization and democratization paradigm? Don't worry I'll break that down into more digestible elements in the end.

In this presentation I will focus on what I see as some serious deficiencies in the analytical and normative framework that has been applied to China's political economy and the social sciences during the past three decades. In examining China's trajectory, many social scientists have relied on assumptions, concepts, models, and theories that seem to have been confirmed by the triumph of Western liberal democracies and market economies over Communist regimes at the end of the last

century. Market liberalization came to be seen as the only sensible way to coordinate economic exchanges and resource allocation. Deregulation, and privatization were recommended as the only way out of underdevelopment and of economic stagnation. In the political realm, democratization came to be seen as the superior and universally applicable solution to the challenges of political accountability, stability, and adaptability. In short, to most Western social scientists, marketization and democratization have served as the master narrative for explaining the success or the failure of nations in modernization. The package of assumptions and concepts that are at the heart of the marketization and democratization agenda constitute what I call the “MarDem paradigm.” Taking the experience of Western market economies and liberal democracies as the benchmark has proven costly. Many economists and political scientists have tended to dismiss institutional and policy innovations in other political economies, such as China, as irregularities, as deviations, or simply dead-ends. They have not given very serious thought to the possibility that China may represent a political economy that is big and successful enough to pursue a trajectory different from what we expect in the light of our own rather constricted analytical framework. Let me put it a very provocative way, as I want to provoke some response. It has become, in my view, increasingly problematic to try to shoehorn China into the shop-worn categories of Cold War regime types. We need a new approach.

China today stands a powerful red swan challenge to the social sciences. This is a play of words on a major recent work by Nassim Taleb, *The Black Swan*, that raises basic questions about how the social sciences gain or fail to gain new insights. Taleb holds that the unpredicted, deviant, surprising cases, ones that challenge shared assumptions and that have a huge impact on our assessment of how the world works, are much more important for gaining valid insights about the world than those cases that confirm our expectations. The economic crisis we are currently going through is such a black swan: huge impact, unpredicted, underestimated, not yet understood, and not yet mastered. And I propose to apply Taleb's approach also to the rise of China. The political resilience of the Communist party-state in combination with the rapidly expanding internationally competitive economy represents a significant deviant and unpredicted case with a huge impact, not only on the global distribution of political and economic power, but also on the global debate about methods and models of development. Therefore, I call China's rise a “Red Swan” that challenges basic, widely shared assumptions and models of the social sciences. In the following remarks, I'm going to emphasize the significant discrepancies that have become manifest between on the one hand, what the MarDem Paradigm makes us focus on and, on the other hand, what we actually find in China. There are many surprises that are increasingly brought to light by current developments.

Let's take a look at the political system first. China has not taken the road anticipated by most Western social sciences and desired by most Western publics. Observers have been predicting the imminent demise of the Chinese political system since the death of Mao Zedong more than 30 years ago. Yet all these scenarios of collapse have collapsed themselves since then. While these were unpleasant misjudgments, there

remains a deeper epistemological reason. Conventional and political science models of regime transitions are constructed around dichotomies stemming from the cold war period, from dictatorship to democracy, from plan to market. These models assign almost no adaptability to Communist party-states. Communist systems are judged to be incapable of continuous improvements in administrative organization, economic coordination, technological innovation, and international competitiveness. Therefore the MarDem perspective makes us focus on dysfunctional communist institutions and sprouts of democracy. A lot of research energy has gone into identifying deficiencies attached to hierarchical decision-making in China, into finding evidence for lethal institutional decline in the party state. Another big stream of research that has received rather generous funding from Western foundations and from Western governments has focused on finding or supporting the sprouts of China's democracy in village elections and in societal organizations. However, this focus has not proven useful in understanding the complex dynamics of institutional and policy innovation in China during the last three decades.

Instead of a rigid party-state, recent policy-oriented research has found evidence of highly adaptive modes of governance in China. Instead of command hierarchies, we find an increasing role of consultative law and policy-making; and instead of seeing village elections as preparing the ground for a systemic transition to democracy, more skeptical researchers interpret these mechanisms as attempts at improving basic-level accountability, but without relinquishing Communist party control.

Let's turn to the equally or even more striking realm of political economy. In the Western public and also in the academic debate, China's rise has regularly been explained in accordance with the marketization and privatization agenda that has swept the globe from the 1980s on. China's economic growth story was framed as the result of pushing back dysfunctional state interference, abolishing state planning, unleashing the power of free markets and privatizing China's economy. Academic debates came to be concentrated on market competition, market regulation, private entrepreneurship, private property rights, and contract rights. Yet this focus on a convergence with market principles has produced fundamental flaws. I want to emphasize here one core misunderstanding that has been caused by mechanically applying the marketization paradigm to China. It sheds light on a rather large and striking blind spot that results from the MarDem framework. It is a sweeping mainstream judgment taken for granted among economists and political scientists without further questioning that a wholesale demise of the plan has taken place in China.

Over the last three years I've taken a very close look at China's efforts at strategic policy coordination -- long-term, cross-sectoral policy coordination and its contemporary, historical, and comparative dimensions. I've conducted a series of interviews with planning officials and economic officials on that, and I can state quite simply that there has never been a wholesale demise of planning in China. Planning is alive and kicking. Of course, it is now called *guihua* instead of *jihua*, and it is planning with and for markets, not socialist planning against markets. Doubtless,

many typical features of socialist industrial resource management have been dismantled, but the very essence of state development planning - that is anticipatory, targeted, cross-sectoral coordination of public policy - has even been reinvigorated over the last one and a half decades. China still is a very ambitious planning polity that is committed to aligning - or realigning - state power with domestic and global market trends, and from a long-term perspective. This planning ambition can point to certain significant achievements over the last two decades, and everybody can witness this in China, most notably in the simultaneous development of national, integrated infrastructure planning, which is really huge; it's harbors, it's highways, it's railroads, it's even urban planning. It's really an integrated approach to large-scale infrastructure planning. Not many political economists could even dare to think to do that. Again, it can be detected also in human resources development and in technology planning, and all the indispensable, undisputed foundations of economic modernization -- infrastructure, human resources, technology. Though market coordination has gained considerable ground in China's economy, the state still controls much more than just the commanding heights, the *mingmai* through public property rights, administrative interference of Communist party supervision of senior managers, the context of recent stabilization and stimulus policies, the state-controlled parts of China's economy have made new advances. The *guoji mintui* discussion is this. Here we find features of China's political economy that shaped distinctive political-economic dynamics that are not only different from Western market economies, but also very different from the modes of state guidance that we had seen in Japan or in South Korea. That's what I would hold.

Let's turn to the basic analytical perspective, and that's actually something that I want to go at today. Over the past three decades, the MarDem paradigm has directed our focus to good governance as defined by the Western experience. The social sciences and international organizations have take a predefined set of norms and institutions, including property rights, the rule of law, etc., as the benchmark for judging the developmental potential of political economies. But China's rise is based on institutional foundations, governance mechanisms, and policy solutions that in many aspects run counter to the MarDem paradigm, and is a major challenge to this master-narrative. The tension is really about quite fundamental issues. The MarDem paradigm rests on an understanding of governance that sees predictable, transparent regulation of economic and political activities as essential. But Chinese policy-makers have pursued their growth agenda through a volatile, discretionary and quite aggressive "push and seize" approach to policy-making. This policy style is particularly prevalent in local-level policy making, but importantly, the Chinese approach is directed towards transformative goals, and this is very, very different from the protective modes of governance that prevail in most advanced or so-called "mature" political economies. Whether the PRC's institutional policy solutions that have been produced during the past three decades turn out to be transitional remains an open question. But, in any case, they have served the Communist Party's management of economic change remarkably well so far. For that reason alone, they deserve our serious attention as social scientists. What if, a big "what-if," what if China is in fact, pursuing a unique path, and due to its size, history, and growth,

introducing important unconventional, non-Western techniques to the repertoire of governance in the 21st century, and what if this 21st century requires quite different approaches to governance than the 19th and 20th century. I think these are important “what-ifs” here.

For my concluding thoughts, please take a look at this bon mot, which was coined by Albert Hahn, a maverick German-American banker several decades ago. There's a deep, deep truth in that here: “Working with social science models is like searching for Easter eggs. You only find what you have hidden yourself. What you, yourself have hidden beforehand.” It's humorous but there's a deep truth in that, and it's quite challenging if you think it through. This was a guy actually who invented deficit spending 15 years before the general theory was published by Keynes, and later on he actually stepped back from that and said it was all -- what he said, what Keynes said -- is all wrong. He's really a maverick kind of guy, but made millions, even in the worst times of the stock market. Quite a remarkable banker, this guy. This bon mot does not just fit our present season, that's clear, but it points to a general epistemological problem in the social sciences and it also applies to the MarDem Paradigm.

What is the way out of this predicament? We want to be constructive here. How can we pursue a less-constricted, more open perspective to understanding China's unconventional development trajectory? I'd like to suggest we turn our focus away from predefined norms, institutions, and expectations that are at the heart of the MarDem Paradigm. Instead, we should turn our full curiosity to unusual governance processes that are not explained by existing models and that challenge our preconceptions. How do Chinese policy-makers try to solve problems? Are they really using the same approaches that we pretend to know from our previous experience and from other contexts? Or do we find surprising ways of policy interaction and innovation that go beyond our previous observations and provide new lessons? In short, it is imperative to refrain consciously from all hidden or implicit teleological assumptions about China. Instead, we should view China's development as a large-scale process of search and discovery. For it's very different from previous experience and full of surprises and new lessons without an ending that we could pretend to know today. Thank you.

PAN WEI:

Thanks to the hosts and thanks in particular to Professor Liz Perry, who trained me, actually. She didn't mention; she chaired my dissertation. About China's steady progress in the past 60 years, there are many explanations. The most popular one, and perhaps the most self-confident one, is economic explanation. But for me, it seems that those preconditions for economic development had existed 100 years ago in China. They are also present in many underdeveloped countries in Asia, Africa, and Latin American, but they do not succeed like China does. So I'm going to present a systematic explanation of what China is. It looks like Professor's Heilmann's footnote

after his presentation, and it's on China's social, political, and economic system as a theoretical framework.

I think that all the social systems contain these four elements: basic social units, forms of social organization, relations between social organizations and the state, and also principles of social ethics that knit the social organization together and influence the relationship between the social organizations and the state. This basic social unit would affect all three elements, and that's the logic that underlies these four basic elements. Accordingly, I sparked this four-pillar China's social system and I call it "Sheji." It's a traditional name for the place where people and officials pray and worship for prosperity and harmony. The first is the family, as the basic unit, as a social unit, and the second is family-based community and family-based *danwei*, an urban work unit. This social network overlaps naturally with the administrative network so that horizontal administrative network naturally overlaps with the *danwei*, and the vertical administrative network naturally overlaps with the community. The two intermingle with each other at the grassroots level and grow together. The principles of social ethic, you can see the family ethic permeates the logic of the communities and *Danwei* in terms of management as well as the relationship between officials and the social network. So here is an illustration of family ethic emphasizing mutual responsibility instead of accountability. In the center, husband and wife; and above that, parents, elders, officials and so-called heaven. Further down, we have children, offspring, posterities, and Earth. Parallel is brothers, sisters, and friends. So it's a spiritual cross.

Like any cross, it's a heavy burden - a psychological burden - for every Chinese. That social system leads to a political system. I think that all political systems contain those four elements, and there are political ideas on people-state relationships, which affects the methods in selecting officials and key governing organs, by which I mean the three branches of government, and here, the, also includes a mechanism for preventing and correcting mistakes. So this social system certainly affects this idea of people-state relationship. For example, China's *minben*-ism and social system, it's family-based. So I see this four-pillar *Minben* political system. I call it *Minben* because the political idea is "Minbenism," which means the very existence of government is for the welfare of all the people or it should be overthrown. This is quite different from the idea of power politics in the Western democratism. As to the methods in selecting officials, it is meritocratic, and which is different from the electoral or by majority principle so that. This meritocratic way of selecting officials leads to bureaucratic dominance. The third pillar is the key governing institution. While in many other countries there are many forces, but in China, it is politically unified and neutral governing group. Neutral might not be a very good word, but I think it sets itself apart from interest groups. In traditional China, there was a Confucian governing group, and they were politically unified. This group is a neutral one emphasizing responsibility, and not parties and politics emphasizing accountability. So this is the third pillar, and the fourth pillar is about a mistake prevention and correction mechanisms in China. Traditional China relied division of labor just like today, such as administrative mechanisms and many other aspects of

this division of labor. But it's not true separation of power. And it works fine. I think, so far. People would say, oh you made so many mistakes like the Cultural Revolution, Great Leap Forward, but other places have made no less mistakes, perhaps, so this is the kind of phenomenon of underdevelopment. If we look at this, the conclusion, it seems that, if I see this Mainland China, Singapore, Taiwan, Hong Kong as the Chinese societies, and these four factors, it seems the Vanguard Party supports bureaucratic dominance and rule of law, and electoral politics undermines this Vanguard Party, or destroys this Vanguard Party, but also undermines bureaucratic dominance and rule of law. That is my understanding from the empirical cases.

That social system leads to this economic system. It is easy to understand the economic system has this three basic elements, standard textbook teaching, but I add one more, which is enterprise. Enterprise carries capital so as to combine labor and production materials. Obviously, political system can affect this labor enterprise, such as ownership, and ownership of materials, production materials. So these four basic factors of the economy are deeply affected by this political system. Therefore, I developed this four-pillar economic system. I call it *Guomin*, because there are two sectors, *Guo* and *Min*, the state sector and the non-state sector. These four pillars are: state-controlled land and production materials as one pillar, and state ownership of large corporations - corporations for infrastructure and rapid development has been based on infrastructure China is not an accident - raw materials overseas, to obtain raw materials overseas, and major financial institutions, and also non-profit organizations in research education, health, sports, etc. I think that education is very important for such a large country, and now today China not only has cheap labor, but educated labor - labor with nine-year compulsory education. That is very important; it has to do with political system. Then the non-state sector is based on family and communal firms. 99% of the registered firms in China are family firms. And they form these free market for laborers and free markets for capital and commodities. So the two sectors are supplementary to each other. You can see that, for example in Africa, state enterprises broke in first and then the private firms followed, making the whole African continent very prosperous right now - 6% of growth rate last year.

In conclusion, to see this whole Chinese system, I combine three parts - the political system, the social system, and the economic system. This is the core part, as it is netted with social network with family ethic. Minbenism actually derives from the family ethic. But also the whole system, the whole Chinese system in the pink part, is like a backbone. I conclude with this so-called inspiration. This Sheji society that I just described really has problems with this state-civil society dichotomy. And when we think about that, this Minben politic really has challenged the democracy - autocracy dichotomy, so I am changing this term. If you think there are only two, then add the third one, which means there are some million more possibilities. And this economy challenges this market-state intervention dichotomy so that I give them these Chinese names so that to see whether this China experience has challenged these social science paradigms. Thank you very much.

WANG HUI:

I realize that I am the only humanist scholar in this table. It's difficult for any humanist scholar to speak together with social scientists; they give you the whole world in models. Obviously, I have no such models. At the same time, we know that there was a debate among the Chinese intellectuals about whether or not they are models. As a humanist scholar, I used to focus on historical events and their sequences, or their consequences, intended or unintended. Two days ago Professor Macfarquhar used a dialectical term by Mao Zedong – *huaishi bian haoshi, haoshi bian huaishi*. That is a very dialectical way to think about why China has achieved its economic growth. It is this, together with the problems and the crisis that I will to say something about. I'm sorry that I forgot to bring my glasses, and so I hope not to confuse you.

So in discussing the Chinese model, many scholars are in the habit of comparing Chinese development to the disintegration of the Soviet and the Eastern European system, emphasizing China's stability, while forgetting conveniently that the general crisis that broke out in 1989 began in China. Its traces can still be found in different spheres in China today. But the real question is, why did China not collapse along with the other Communist parties, the socialist countries in the Soviet Union and Eastern Europe? What factors helped to maintain China's stability and created the conditions for rapid growth? Having undergone 30 years of reform, how have these conditions now been transformed? This is the first question to which we must respond. I think in order to talk about the new model of the last 30 years, we must go back to the 1989. Otherwise, without the divergence between China and the Soviet Union and Eastern bloc, it is difficult to define China as a new so-called “model” or the “Chinese Road” and so on and so forth.

One of the issues we talked about actually at the lunch table that China is one main differences of pre-reform era is that China underwent the long process of the Cultural Revolution. It broke, certainly broke, the state structure and the party's structure, and that is different from the other socialist countries. So one of the unexpected consequences was that the state was better able to respond to the needs of the lower strata of society, which was a significant difference from the rigid bureaucratic systems of the Soviet and Eastern European countries. When those officials from different ranks went back to their positions after the Cultural Revolution, they were much better at responding to the demands from the lower strata. So that's the beginning of reform - why they achieved the legitimization of the reform welcomed by the nation. That I think is one of the differences. But mainly, I think that there is another difference – another reason why 1989 was so different for China. I have read some memoirs by those former Communist leaders in the Eastern European countries. For example, in Eastern Germany, the last secretary, the party secretary Egon Krenz, he explained why Eastern Germany collapsed so suddenly. He used a term - he said that in the '70s, most of the leaders from Western countries argued that, they used the term of Brezhnev Doctrine, which means incomplete sovereignty, to describe the nature of the state of the Eastern European countries. He said that once that change

happened within the Soviet Union, that the consequences will occur in these Eastern European countries. So the collapse following that, in that case, the post-war structure, the world structure, were used to define as a sovereign state system, but actually, very few countries have the real independence of sovereignty in that sense. Most of the Eastern Block and the West Block were not at all completely sovereign countries. But let's go back to the Chinese situation. We know that after 1949, after the Korean War, the Chinese broke with the Western countries, especially with America. But in the first five, ten years, the Chinese economy and the whole social structure were highly dependent on support from the Soviet Union. But after the late 1950s, we know that there were serious debates between the Chinese Communist Party and the Soviet Union. This was the most difficult, most tough period -- from the Great Leap Forward period to the early '60s.

The unintended consequences of that made Chinese sovereignty much more self-reliant and much more independent, which was really different from Eastern European countries. So that without that self-reliance and the more complete sovereignty, it would be difficult to explain why China didn't collapse after 1989 following the other socialistic countries. So the political nature of the self-reliance policy obviously had massive, significant consequences in economic, social culture and so on and so forth, so that made the Chinese economy much more independent national economy compared to any of the other countries. Also in order to search for that independence, the Chinese foreign policy was changed the following that. Without that, it is difficult to understand the reconciliation between China and America in the early 1970s. So the so-called "opening" policy can be traced back to that period rather than only to post Cultural Revolution. Without the debates on the break with the conflicts with the, confrontation with the Soviet Union, it is difficult to understand the reconciliation between China and America. People used to discuss "open policy" versus the "closed-door policy," but actually you can see the continuity from there. In a way, the discontinuity is in a sense a kind of continuity. This is a kind of the dialectical relationship between continuity and discontinuity. So that created a new historical situation for the Chinese reform. I think without that change in the international situation, it would be quite difficult before to understand the Chinese reform in the last 30 years. In that way, the Chinese reform process is different from that of many other socialist countries, and maybe much more autonomous. It was an internal logic from within that launched the reform. It is not only on the pressure from outside, but there was a certain kind of historical logic for search for the new road. I think this is quite important.

A second aspect from there is about the political system. All these debates, and even the state sovereignty issue, were started not from the nominal sense, like social scientists use to describe sovereignty in international relations, but go back to the political relations between the political parties. So all the reform and the international relations started from the Party's policy and its orientation. In that sense, it's difficult not to mention the nature of the CCP in order to understand contemporary, 20th century Chinese history. So that, I think it's one of the aspects, the issues. If we want to understand that the CCP's role in the Chinese Revolution and the Chinese Reform,

I think we must go back, very briefly, to mention the Chinese Revolution. The Chinese Revolution and Reform occurred within a traditional agricultural society in which the farmer became the revolutionary subject. Whether in the earlier stages of the Revolution or War or during the era of the social reconstruction and the reform, the sacrifice and the contributions of the agricultural class were always significant. They're expressions of the active spirit and the creativity, leaving a profound impression on people's minds. Because in the long revolution and the wars, the party system was rooted, integrated into the whole society, the networks, in lower, much lower levels. It penetrated into the whole society, and this is very different from the rigid bureaucratic system in some other countries. So that's why the whole capacity for social mobilization was much stronger than in any other party system, especially than in the Soviet Union and the Eastern European countries. Without the long Chinese Revolution, it is difficult to understand the political nature of that system.

At the same time, this created double demands. Because the rural society on the one-hand, there was a long tradition, because Chinese society has a long tradition of the certain kind of market mechanism which can be traced back to the much earlier history. But on the other hand, through the whole 20th century, land relations changed. Without that change, it is difficult to understand why the redistribution of land in the early years of reform was so welcome, and this redistribution was the foundation for the success of the first stage of the Chinese Reform in that period. At the same time, because of these political processes, the Chinese position of the state to some extent is also different from any other country. Professor Yao Yang from Peking University used the term the so-called "neutral government" to define the role of the state when it launched the reforms, which were welcomed by the people. That it is so-called "neutral" means that it is neutralized from the special-interest groups. But for that kind of state in that certain period, the neutralization of the state was obviously the result of a long political process. It was the result of the long Chinese Revolution. Without that, it is difficult to understand that the state could be neutralized from special interest groups. It really depends on the social structure.

This, I think, is a quite important element or precondition for the success of the Chinese Reform, or at least economic growth. But now the question is that all of these preconditions are now shifting or are in transformation. For example, because of marketization and globalization, the sovereignty issue was obviously changed and transformed. It is not possible to follow the old way to talk about sovereignty. This is one aspect. The second is that the role of the party, I think, is transformed very much. My understanding is that the present Communist Party is different from the party in the 20th century. In the 20th century, it was very much a strong political organization. But now the Chinese Communist Party, to a great extent, is integrated into the function of the state framework. So in that way, it seemed that because the state launched a reform and is really integrated into the market activities, it is no longer neutralized. Only as a political organization can it have such a kind of the neutral role. That's why the party is more and more integrated into the state, for example, the discipline system, anti-corruption system and so on and so forth were there. But

eventually, what kind of new political orientation and direction will emerge is still uncertain.

In conclusion, I think there are at least three aspects we need to consider. The first: China experienced a long and profound revolution in the 20th century, and the Chinese society retains that acute sensitivity towards the demands of the founders and social equality. How should these historical and political traditions be translated into the democratic demands under contemporary conditions? I use “democratic demands,” but I don't necessarily mean the Western model, because now everywhere we need to search for the real democracy, real models because, the universal crisis of that. Second, the Chinese Communist Party has experienced a massive, significant change, becoming more entangled with the state apparatus with each day. How can this party system become more democratic and how can the state's ability to represent the universal interest be preserved while the role of the party is being transformed? Third, how can a new political form be constructed upon a social base, grounded in a greater political capacity to mass society and thereby overcoming the condition of the de-politicization created through the new liberal marketization? These questions are great important theoretical questions, including the conditions of globalization and marketization. In what political direction will the people of China move? How can a self-reliant Chinese society be forged as China is opening up? The global significance of these explorations should be obvious given the universal crisis of the market and of democracy world-wide. Thank you.

QUESTION AND ANSWER:

JOSEPH FEWSMITH: The fairly considerable difference between the views of Sebastian Heilmann and Wang Hui. Sebastian seems to see the state as retaining a neutrality that Wang Hui contributes to an earlier period of reform, and that the planning system is hence relatively evolved, neutral, so on and so forth. One way obviously sees the party and the state as not only mutually integrated, but as bound up with a variety of social interests that in some ways have corrupted and made that sort of neutral planning process impossible. Therefore he seems to be aiming at some sort of democratization that would bring about a new political mechanism. These are pointing to very, very different models of contemporary reality. So I guess I would like each respond to the other, if my characterization of their arguments is at all correct.

MAN: Professor Heilmann and Professor Pan both mentioned the idea of *guojin mintui*, of state sector gaining more power in the market that's in going through a privatization that's seeing efficiency gains in the market. Going forward, obviously, most people think that we need to have more efficiency in the system, more private enterprise as playing a larger role. But, the sort of prediction part that I wanted to ask the panelists, is, going forward, how much do you see the market efficiency play into the role of the state sector? Obviously state planning, most people don't believe that it is an efficient or smart allocation of resources.

RUDOLPH WAGNER: I would like also to ask a question about the neutral state. I think it's a very interesting concept because, first of all, because it is grounded in a type of ideology and huge command of educational efforts - training cadres and so on and so forth - which somehow, this is not a state that intrinsically is neutral. Not the neutrality in terms of particular social interest is one part of a particularly tidy agenda. But that's rather highly articulated. And it comes with a muscle which I think also might be mentioned. You see, the fact that the state can maintain a kind of -not even a broker neutrality - but as a matter of fact, a neutrality of pushing forward in a manner that does not physically privilege one particular segment in the population continuously - it could at any given moment, but not continuously so. The reason for that is that the other elements in society, which in Western society would be articulate, namely employers, associations, unions, media and so on and so forth, they are, as a matter of fact, neutralized. That is, the state does not go into a situation where it constantly has to ward off very articulate, powerful, and strongly-voiced, or direct regional private interests. But, as a matter of fact, it has cut these instruments down to such a degree that it is able to do that. And I think this question of the actual muscle - we are not just talking a model, which all very nice and neutral, you know, it's also political agency, muscle in there, and I think perhaps you should talk about this a little bit.

RODERICK MACFARQUHAR: What I'm struck by in both Sebastian and Pan Wei's presentations is that there seems to be no conflict in this society – none at all. Everything was to the best and in the best of all possible worlds. And when we know, because the Chinese Communist Party leadership talks about it constantly over dinners, that the society is deeply corrupt, and when we know that there are tens of thousands of demonstrations against the local authorities at least every year, because we're told that by officials at Princeton, it seems to me that the idea of a “conflict-free society,” or an “interest-free society” just doesn't work. And I think there was no mention of people. If you look back at the first 30 years of the People's Republic, the idea that the People's Republic would have turned out the same way without Mao Zedong is absurd. If Liu Shaoqi and Zhou Enlai had been in command and Mao had been dead, there'd have been a new democracy, and we'd have had the reform right from the beginning. Deng Xiaoping's influence is still lasting. Who was it that who picked Hu Jintao to be the successor to Jiang Zemin? It was Deng Xiaoping. Now that system is running out of steam. Why? Because there's no institutional development of the Chinese Communist Party; they do not have a succession system. They do not have a succession institution. Now, they had brokered some bargaining between themselves over the last year or two so that we think Xi Jinping will be the next successor, but we don't know. Nor do they know, because they don't have a system to which everyone's agreed. Everyone is now agreed to the two terms. Everyone has almost agreed to the idea that you are 70 years old, and you're out. But the succession system has not been approved. That seems to be a basic weakness when you have all these interests, all this corruption in the party and the society, and the idea that there's no conflict there is just, I think silly.

PERRY: I think we have plenty enough provocative questions from the audience for the panelists to respond to at this point. So who would like to start off here? Sebastian?

HEILMANN: There are some quite big questions here, but it's very challenging. State neutrality: this was one major issue here. I never talked about that. Actually, it's not neutral in the sense that I think the recipe for success that I see in the policy process on the central and on the local level in China is realigning state power on the local level, cadre power with market forces - domestic or global market forces. So this is the logic of the system; it's not at all neutral. So at the center, and I had lots of interviews with very interesting bureaucrats - they're at the NDRC, which is kind of the major planning and coordinating organ, the economic government of China - and they really have the big picture, no doubt about it. There is some sort of interest group influence, big companies and certain sectors that are trying to push, but still this is such a highly aggregating place, there, that they are really kind of taking the big picture. I'm quite convinced by that.

But now the problem starts. What are they doing with the regional level? There we have interest group politics at its worst sometimes. It's very corrupt sometimes, very pushy also, very ambitious policy makers, also ambitious planners, actually, who want to get an infrastructure, modern infrastructure like in Western Europe within five years or so, for instance, in Guangxi. This is something that's really astounding, so what we have there is quite a different policy, process, and that's why I stressed the processes so much here, and it also applies to the people. If we just trace the processes of policy making, how do they make plans? How do they implement them? How do they try to check on them? You find, in the end, that the center - and this is quite special - kind of limits its policy initiative to setting major objectives, long-term objectives. How the local governments find the policy instruments, it's given to them, and they do it usually - and this is very powerful in my opinion, and I did quite a lot of research on that - through policy experimentation, so they've really tried things out. And then things go terribly wrong sometimes. Clearly, there's failure, there's waste, there's corruption, there's sometimes loss of sight of the objectives. So that's something that's very clear, if you just trace the processes, Deng Xiaoping will show up in legitimating experimentation for example. He will also show up in, and Ezra Vogel knows this much better than I do, he will also show up in criticizing the planners and pulling them back and saying, "planning in that way doesn't work, maybe the profit, but not more than that," or something like that. Very hands-on.

So actually, what I would suggest, and this is my suggestion to kind re-launching a new approach to studying Chinese political economy, is to trace these processes, be open to all the factors that move in, that come into play, and then the politics are clearly inside of it. So we have fields - now let's just face the big programs, we have infrastructure planning - this is a huge process, when the funding alone is gigantic that's taken place, and Victor Shi is over there, he knows how the funding takes place, on the local level he's given a very detailed study on that, this is completely messy and extremely corrupt, but still, and this is the surprising thing, they get things quite

good, well done in some provinces there. So we have this tension here. I want to stress that the tension is caused by the center more and more kind of retreating to the policy setting, the prioritization, priority setting function, and leaving the implementation, leaving identifying the instruments to the localities. And there, things become messy. But still, I would hold that this kind of neutral central state administration, technocratic administration, can be found in some parts of the Chinese administration. That's what I would really support.

PERRY: OK, Barry, do you want to weigh in on this question?

NAUGHTON: I'd love to. It seems to me that one of the difficult things is putting into our consideration the fact that for most of the last 30 years, marketization as a direction or as a process, has been the presumption in which a lot of these other consultative institutions are taking place. So there's always this ambiguity in our understanding because we're looking at a system that's improving its performance by opening up functioning until very, very recently. And so the question was raised separately, but I think it's very much an important part of this is, of *guoji mintui*. What does it matter that the state has expanded a little bit in the last year or two? Well, substantively, it's not important at all - these are relatively minor cases. But in a bigger sense, it's really important, because it means that people no longer have the assurance that the area of choice and direct personal control is expanding. And I think that really changes people's behavior enormously. And it also throws into light the other side of institutionalization, I mean as Rod said, there's no succession system and there's no open expression of conflict of interest. So there's no formal institutionalization of certain things. But what that means is we see instead a kind of extreme formalization of certain kinds of practices: for instance this idea that we're actually going to know who the leader is in 2022, and that the third plenum of every party is on economics - every five years, we're going to talk about economics. I mean, it's a completely, on some level, crazy form of over-institutionalization to try and compensate for the fact that we don't have other types of institutionalization.

PERRY: Pan Wei, would you like to comment?

PAN: The first comment is about market efficiency, vis-à-vis the state enterprises. I don't think that state enterprises means inefficiency. There are state enterprises, they are everywhere, and they can do pretty well. I think the state allocation of the resources might be inefficient, but state enterprises, independently operating, can be quite efficient. In China's case, and I don't think it's a *guoji mintui*, but *guoji minjin*, and I think that, so far, there is not really a major problem between state enterprises and private enterprises. But in recent months - talking about in real estate, in getting the land - the state enterprises have a lot of more money, so the government decides then to, just in a few months, to take the state enterprises out of this land market. So for me, it's not a major problem. It's merely a media problem, and the *guoji mintui*. And as to the state neutrality, I think Wang Hui is right, it has to do with the social structure and the state neutrality. Now whether it is neutral or not, I think the social structure really allows - or not really allows, but propels - a kind of a so-called

neutral government. But actually, for the Communist Party is, the problem is not about its neutrality, but about its advanced-ness, about whether it's a Vanguard or not, whether has a progressive idea or not. Politically, it's not really neutral. It is about leading in that way.

And so here I come back to Professor McFarquhar's question - that the model lacks conflict. Well for me, it's mainly a descriptive model about the Chinese system, which is different from the, most of the Western systems. I want to say, it's a revival of an old traditional system. It is also a modernized, revised version of the traditional Chinese system. It's descriptive, but then if we want to talk about internal conflicts, of course it's full conflict just like any Western system. For example, the neutral bureaucracy. The neutrality, which really means that they are not representing interest groups, but they represent themselves - so that this corruption is the problem! It's not pork barrel that is a problem, it's another problem! And in terms of economy, the state sector and private sector, at times they may have conflicts - even in Africa, they have. In social systems, yes, of course, we see this kind of, well in the whole chart, actually, everywhere, there are conflicts. But the thing is that if we describe the conflicts, we can't do it in the ten minutes required. So the first thing is that --

MacFarquhar: Excuses, excuses!

PAN: You'd have to describe the system first, and then spot the problems, but I understand. Raising the question of conflicts actually points to the sustainability problem -whether this system is sustainable. But for me, it's a kind of system that sustained for 2,000 years and sustained even each dynasty, major dynasty, around 300 years. So its revival, in one way or another shows the traditional, or something called Chinese, is sustainable.

MacFarquhar: But the founding dynasties only lasted a couple of generations.

PAN: Well, it can be 17 years, right? In Qin dynasty, it could be short. But the whole system, actually, Qin systems survived until even today, I could say that.

PERRY: Professor Kokubun, would you like to comment?

KOKUBUN: Just a brief two comments. First of all, you have to never forget about the lessons of the Soviet collapse, anyway. Why that happened, that separation of a party and the government, and why Tiananmen occurred, probably, the separation of a government – of the state - and the party. So I think China is exactly still a party-state, and the party is expanding still. So the problem's how they separate the party and government. That is the key issue of course in the future. But it's really difficult so far. And the state-owned enterprises are everywhere and now of course half of state enterprises have disappeared, but now they are dominating the economy and also, as I mentioned, the vested interest and corruption everywhere. So I'm still in doubt about the kind of state neutrality. So it's a long way to go, still.

Secondly, I like to talk about what you mean by “stability.” Well, when you talk about China, well, China's stable, of course, by force - by asserting power from above. So, for example, I would say, if you look at Japanese politics, is it stable or not? If you look at Japan's the relationship between the state and society, it seems to be very stable - too stable. In the past three or four years, four Prime Ministers, probably you don't remember who they were, right? Abe, Fukuda, Aso, and then Hatoyama, probably the next is on the way, right? But if you look at the state-society relationship, it's very stable -too stable, in some ways. But in the case of China, how is it stable? By force; that is not stable. So China now has been changing because society really has been changing and lots of frustrations and also demands everywhere, and also I look these days at the role of medias. I think in the past probably half a year or so, they are really changing. And they used to look like the mouth the government, or the Party. But now they started looking at the society more than before. Why? Because of the tremendous pressure from below. So they're switching, probably. If you look at the Internet and so, I think it's very interesting – take the Google case. People say that this is a sign of a very powerful the political system. It's not true at all. This is the sign of weakness in the Chinese political administration. So this is the present situation, this is my impression. Thank you.

PERRY: Let me let Professor Wang Hui make some comments and then we'll break for a coffee break and return. Professor Wang?

WANG: I will try to answer Professor Fewsmith's question: obviously both of us actually don't want to use neutrality in our rhetoric. We didn't say that. And I want to especially argue that that neutrality is not, in a sense, you said that there's a centrally planned system, but it's a result of the political process. It's a long political process. Without that, it's difficult to understand that the government in the post-Cultural Revolution era, the people convinced that they represent the general interests of the whole people, even when Deng Xiaoping argued that some people should get rich first, no resistance from below because they believed that the government was neutral, in a sense. But that neutrality was achieved through the non-neutral process, political process. This is the one issue. That's why I, my question is that now the integration of the party into the framework of state was the, I say, in China was the one phenomenon, but it's a general phenomenon, somehow. Because the transformation of the party system in the whole worldwide, even. You could say. The 1980s we talk about the separation between the government and the party, which was the top issue for political reform. But after the 1990s, nobody, most people don't care so much about that. Why? This is a question. Because the, following the process of marketization, the state was integrated into market activities. So the political organization played a role of the more representative of their neutrality. So that's why the slogans for the party transformed so much into the, like, the harmonious society, Three Represents, scientific development and so on and so forth. Which were neutral! All these terms were neutral, rather than political with the special value and orientation.

In this regard, I share views with Pan Wei; it's nothing to do with the neutrality of the Party, it's really related to whether or not the political Party can raise a clear political value and orientation. You look at the so-called neutral government, which is a historical result, rather than the neutrality of political value. So in this case, It think it's a real issue, to think about a kind of new orientation for political reform. This is the one aspect. Second is that I think that when we talk about the, like the state from above and centralization and so on and forth, we used to reduce the complicity of the process of the policy making process. People have used to use the term “authoritarian state” about the current Chinese political system. But let’s look back at the last decades at the interaction between public opinion, the intellectual debates, and the policy-making process, policy-change. You find that a certain kind of mechanism was there; the rural crisis issue was raised by intellectuals, spread over to the mass media, forced the government to change that policy. The health care issue was as well in 2003 because of the SARS crisis, and the whole public opinion forced the government to change the whole plan. So in that way, we can use that term, the “elements of the democracy” to describe this, but it's not necessarily formalized. At the same time, we know that there was a certain kind of debate within the system, so how can we develop these elements into the future of the political system? I think that's the starting point -- to find out what kind of an element is there build to develop that into the future. I think that's the elements. These political debates and the strategic debates within the government were very important issues. And also the state itself is not totalitarian now. You can find every kind of social conflict happening, different actors trying to get involved. So they're confining each other in some sense. Professor Perry’s work about the protesters argues that they used the socialist, legitimate terms, the Party’s own slogans against the state policy, and eventually that turned out to be “system supportive.” But by “system supportive” we mean mean that there was certain kind of internal driving force for self-change. Not simply from above, but also from the bottom, too. This is a kind of interaction within the whole social space. So in that way, when we think about the political future of China, I was agree with the basic orientation of Professor Heilmann's, that first of all we need to find what's there. Then we can develop that into the new systematic institutional framework. Thank you.

PERRY: Peter?

PETER GEITHNER: I recall Pan Wei's graph cross. Family values were a dominant feature. Family values seem to be more characteristic of rural agrarian societies. Urbanized societies, media-ized societies, modal-ized societies, tend to be much more individual in many cases. Is China facing a transition in this regard, with respect to individual versus family-related values? Or is this family system more Chinese than it is agrarian-rural in its origins basis?

PERRY: Yes, Gangqiao.

WANG GANGQIAO: I just had a question for Professor Pan Wei, but also for earlier panelists, you have any comments. So what I've learned from all these conversations and talks is that actually you try to interpret what has happened in the past. You have three decades, or maybe a longer space - six decades or over 100 years. If you try to come with some kind of a new understanding, not the conventional way, your so-called Marketization-Democracy paradigm, or new type of way, a kind of local knowledge way of approach to understanding China. But then, to some extent when you look at a current system, however you describe it, whatever you portray, the Party somehow can't confront or can't address the challenges, which somehow permeates that system in China. And to what extent they might not be able to address, and what kind of possible, in the most systematic institutional change, probably will have to take place in order to sustain their systems?

PERRY: OK, yes, Victor.

VICTOR SHIH: I just have a question for Pan Wei and Wang Hui. How would you interpret, using each of your models, interpret the seeming proliferation of buying and selling offices, *maiguan maiguan*? It's becoming, just from the cases that we've seen, a serious phenomenon, like in Chongqing you have the entire police force operating on a very commercial basis. In Shenzhen you have a mayor who basically bought every step of his promotion up to the mayoral post, which under him is a vice provincial level, DO you see it as an anomaly, or is this part of a larger trend in each of your respective models?

PERRY: Another question before we turn back to the panelists? Yes?

MAN: It seems to me the panelists today are trying to pick out a kind of a new model to counteract the Western so-called "market democratization" model. But, in my mind, almost all the models are misleading intellectually. Like the market - democratization model is like an Easter egg. There are many kinds of approaches to understand the Western society in China also. So it seems that we try to rationalize those past 30 years. All the facts, all the history – the hard history, the grand designs of history. But in China not all of the history is soft, there is also suffering and twists and turns and conflicts. So maybe we have to combine the two. Even in the West, in the Western so-called models, there are many twists and turns and conflicts in the past, such as the industrialization process. This is true in China also. So it seems unreasonable to find, to try to find out a kind of so-called "China model" to help us out from the pitfalls of the Western social science model, that helps us to understand the past 30 years of China and even in the future, the next 10 years or 30 years.

PERRY: You're perhaps not a social scientist.

MAN: No, I'm a political scientist.

PERRY: Oh, you are! [LAUGHTER] All right. But having serious doubts, perhaps, about the whole enterprise. Let's turn back to the panelists and allow them to answer,

whoever among them would like to answer. Why don't you put up your hand, if you would like to answer, otherwise, I will call on you, Pan Wei, you've given the most provocative paper, since you have the most questions.

PAN: I'm so glad to see Peter here. A quarter of a century ago, the institution he worked for paid for my study in the U.S. We met there in Beijing, he interviewed me. About the family, and whether the family value or family tradition is the traditional one, which will diminish with modernization and with and urbanization. I think it is the tendency in many other countries, particularly in the West, but in China, there is no religion or tradition of a strong single God religion. So the social value is prevalingly the family value. And during urbanization, I do not see it diminishing. The family size is diminishing, but the single-child family, I mean the single children that I'm teaching, I see how actually they are are closer to their parents, particularly those kids from single-child families. They really talk about their parents. They want to pay for their care -- and their grandparents'. It surprised me. And also, I see this continuity between family farming to today's urban family enterprise. So it's a natural transformation, and it seems that logic continues. That's why I see this Chinese system as a revised revival of the old Chinese system. And of course, you might say this is a self-fulfilling thing. I mean, there is a hidden egg there, and we buried it ourselves. This is still the strong value, I think, in China. And Qingming Holiday is now, I mean yesterday, and really almost involves everybody - revival of this old ancestral worship.

And as to the local knowledge, I mean the Chinese knowledge, whether it can address this current issue. It reminds me of one thing, that in the late 1980s we thought, there are lots of problems that cannot be solved unless there will be a revolution or overthrowing this whole system, or Westernizing the Chinese system. But then those things, those old issues, we now don't remember them now -economic, social, political. They're all overcome. And today, people say, housing prices, corruption and so on. Many people don't believe that this current system can handle those problems. But I tell them that in the past, just 20 years ago, our problem was we are unable to pay for color TV. And ten years ago our problem was that the family unable to pay for car. And today it's that our family is unable to pay for the housing. It's a similar problem like in the U.S. So this is the progress, and lots of problems can be solved. And if you think that the Singapore model is a way to solve housing problem, then why not in China?

I'm taking the risk to predict that this system is sustainable. And once it sustains for another 20 years, it becomes self-strengthening. Well the Chinese will be much more confident in its own system than before. And as to corruption, the same thing -the purchase and selling offices. Yes, it's a new problem. Am I confident they can curb corruption? I would bet that they can be curbed with a this slowing down of the economy. And whether this "market democracy," this kind of a model could be applicable to today's China -- why are people challenging this conceptual framework? I think because it has a problem; it keeps predicting the collapse of China, keeps predicting democratization of China while China hasn't done that, but it has

progressed and become prosperous, and become one of the major powers in the world. We are even talking about “Chimerica.” So whether China will become another Soviet Union after a few decades and collapse to nothing, be reduced to nothing, I think people should be careful when they predict that, because China is, by size, and by its cultural tradition, is much more profound than the Soviet Union. So I wouldn't risk predicting that China will collapse in 10, 15, 20 years.

PERRY: Would others of the panelists like to comment on this question about what is the point of making a model to explain what's happened in China? Sebastian?

HEILMANN: Actually, I never use the word model if I talk about China, and this has a clear origin; there is no model with applicable institutional factors, variables, standard recipes that we could just transfer to other contexts. There's nothing like that. But there's something there that I find interesting, and that's about how policy and problem solving are being approached -- how policy processes are being organized in China.

Take just two examples for the 21st Century. Two questions, actually. Can we be sure that the short-termism in policy making that we have become used to in the 20th century is sustainable in the 21st century? If we take climate policy, climate problems, environmental problems, even demographical problems, seriously, it's clearly a long-term policy-making issue -- for strategic policy coordination over the long-term. Is the Western kind of policy-making mode really made to deal with this challenge? I'm not sure. Maybe -- and this is just a question, something that comes to my mind because they are new challenges in this 21st century -- the governance mode that might be successfully in this century might be very different from what we have seen in the last two centuries. Another issue is, do we know how we approach, how we deal with -- we had this talk already during the lunch table -- how we deal with the consequences, the impact of democratic change, of aging societies all over the globe? This has a huge, huge impact thing on societies, on politics, on economics, morality, everything. It's a big thing. We do not know the policy packages or how to deal with this. So policy experimentation might be really necessary in that. Here we have two, just two arguments where the Chinese might have some good approaches to demonstrate to us. The first is strategic policy coordination in these long-term issues. I think we are quite we are quite weak in the West about that. The other is policy experimentation, finding policy instruments that we do not know yet, today, and recombining old ones, new ones, and trying out new policy packages. China in this respect, thanks to the policy process, a very creative and kind of volatile policy process, they have probably -- this is a hypothesis -- they might have more potential to tackle these two policy challenges.

PERRY: Would other panelists like to comment, Professor Kokubun?

KOKUBUN: Well, actually I mentioned about how we should evaluate the Chinese model. I said, to conclude, nothing new, so far. Nothing new, so far. The East Asian model in the 1980s was very similar, very similar. I engaged many projects on East

Asian development models in the 1980s, on state-led industrial policies, export-oriented policies, and I do think our Asian style is different from Western style. We also focused on our essence of values - people are probably Confucian, etc. Then the Japanese government poured a huge amount of money for studying about the what is the essence of the Asian culture or something like that. And it all failed, all failed. Well, not failed, actually. Also, why were Japanese corporations so successful? They were family-based. The corporations are family-, and not contract-based. It's different. These are all discussions we had in the 1990s. Moreover, there was something else new: the Asian type of democracy or human rights. But we could not develop this further, particularly after the Asian market crisis that the 1997. So it all stopped then. So, so far I say, yes, China has been challenging, it's true sometimes, but what's new? So that is another challenge to me.

I think a critical issue for China presented is, I think is a lack of future vision. People say, or the government also say, that democracy is going to be the final call, or something like that. They admit this. But there's no process, no explaining the process for how you get democracy. That, to me, that is very necessary for the ordinary people now. People are just waiting for the visions. You don't know when it's going to be a democracy. There is that lack of vision. You cannot talk only about China, of course; our Japan is lacking a total vision, the same, And probably the U.S. might have some difficulties, too. But anyway, China needs a certain future vision. It's a key issue.

PERRY: Wang Hui.

WANG: Yes, I agree with that, the vision is so important. That's why we thought that when we talk about the political issues that the political vision was very important. I'll just spontaneously respond to that, and now I'll go back to the earlier question about purchase and sale of offices and corruption. Obviously, this is very serious, and in different locations, of course, the level is different. It really depends on different regions, cities, and so on and so forth. I think that question is also related to what Professor Fewsmith raised about the party role and the state, because now the anti-corruption mechanism mainly depends on the party's discipline committee commission, and without that it becomes very difficult. That's why I emphasize the role of the party, which is in that sense integrated into the state framework. Functionally, it plays that role. So this is the phenomenon: on the one hand, the people talk about the separation between the party and the state, but on the other hand, there is no resistance for the party's integration into the state in this regard. Because we found that, without that system, corruption could be much more serious. But then the question becomes: if the party system itself is integrated into the state so deeply, what kind of mechanism can guarantee that the party itself can be immune from that corruption system, corruption networks and so on and so forth? That's the issue.

The whole issue is that - in my terms -that it's now an era of the so-called de-politicization, because the political process seems that it stopped everywhere.

Everyone mentions the party state. My idea is that the shift from party-state to state-party is a quite universal phenomenon. That even in multi-party systems, a party itself is now quite different from the older pattern. It is now much more neutralized in order to address general voters, for example, even in the West. So in this case, the issue with vision is that, in this kind of globalization and marketization, what kind of political vision can we have? We must think about democracy itself. Because now, if we want to have a more substantial democracy in our society, we really need to think about the basic preconditions. Now the historical situation has been transformed so much, without thinking and reflection on this, it's difficult to copy any model. But in any case, I think now that, in the Chinese case, the most important thing is how the lower strata's demands can be heard in the policy-making process. The problem is that now -- I see especially when I'm involved in investigation of these cases -- without strong protest, the demands cannot be heard. I think it's a real crisis, and we need to think about what kind of way to make a society with more channels to be heard in the political sphere.

PERRY: Thank you. Barry?

NAUGHTON: I want to just take off quickly on one of the last things Wang Hui said. So the integration of party and government is not only a feature of the disciplinary system; it's a feature of everything. So that the entire organizational structure is incredibly well --well maybe "well-tuned" is not the right word -- tuned to an incredibly high pitch to achieve a relatively limited number of objectives: economic growth, controlling corruption, one or two others. That's what worries me. Pan Wei says we shouldn't expect a collapse, and I certainly agree. But at the same time, we see this system which has now generated this incredible momentum in a certain direction. We face this very peculiar situation right now where, for five years, the top leaders have said they're going to reduce the investment rate and create a more balanced growth path. And it hasn't happened. So here's a system that's supposed to be authoritarian and under control, and it's going off in a direction that seems to very different from what the top leaders claim. Maybe that's an expression of the fact that the system is so tightly wound, so integrated, and so devoted to certain specific objectives, which might not be appropriate.

PERRY: Go ahead, Sebastian.

HEILMANN: Let me respond to that. The very interesting thing about China in terms of macro-economic management was that until 2007 -- we talked about that already -- they were close to getting control over over-heating and to deflating the bubble in real estate in 2007. And then this huge downturn came, and exports fell off the cliff, The problem was that they gave over a bit to the mobilization power they had, again. They mobilized all their resources, the huge resources they had at their disposal, and they pushed things over again. And they over-pushed it, probably. That is most probable. But it was kind of a panicky reaction, and that says something. The first thing that it says is that macro-economic stabilization was close to being achieved in 2007, so that was actually the kind of stabilization that the planners were

dreaming of. Nearly all the big balances were kind of in harmony at that time; they were very careful in doing that. They were talking, praising this, and then this damned crisis came at the wrong time, and they had to push forward things in the planned economy style again, command-economy way. And they were actually capable of doing that, but they are paying a high price now, probably in the next few years. So I would say, the stabilization goal was there, and was close to being achieved with kind of new methods, very nuanced kind of methods, command economy methods, market monetary methods and so forth, that were kind of recombining the instruments that they had at their disposal, which are very different from Western market systems. Then this crisis came and pushed them into a more command-economy style handling of the crisis again. That would be the story how I would give it, I don't know whether it is plausible.

PERRY: Of course, the Chinese economy isn't the only one to respond in ways not of its own choosing in recent years! Gwendolyn?

GWENDOLYN STEWART: Yes, so I have a question for you (Prof. Perry), but preliminary that I keep here "exceptionalism," remembering when there was American exceptionalism, now I'm getting Chinese exceptionalism, Chinese exceptionalism. You posed the question of expanding the rights of China, a challenge to Western social science theories, and you responded to one gentleman responded by asking what his field is, and I wonder, do you feel that you heard enough to, say, overthrow the Western model of social science or something, and are you going to announce this in the Government Department?

PERRY: Weiqi?

ZHANG WEIQI: I always have this question about models in social science, and I want to raise the discussion to Professor Heilmann. We've talked about problem of creating certain defined models to explain the politics of poor countries. You sort of point out one problem with this approach, which is that the model may not be correct, may not be accurate. But I think a bigger problem is that the model also has a material impact on the society. I think you were quick to jump on the example of how government or foundations in the U.S. try to fund like organizations like civil society in China (HEILMANN: "Right, like village elections"). Even though this model of society or I think NGOs might in the first place be misleading, they are actually creating this infrastructure there. And now Chinese people are actually talking about NGOs and civil society. I think a larger question is that here we have scholars talking about China as outsiders, but I think at the same time, people actually, even the process of interacting with Chinese people. I think, for example, Professor Tony Saich at the Kennedy School of Government is teaching Chinese officials. So I think there is not a clear line between scholars and what's actually happening in China. Scholars might not be just observers, and there's the problem interacting between what's described and who is describing.

PERRY: Another question? Yes in the back there.

MAN: Market democracy is not necessarily social and economic democracy. The Western models of so-called democracy contain vast disparities and inequalities in class, which has almost been made permanent. In entertaining these visions that you're suggesting, can the discussion also be broadened to include some form of deeper economic democracy as well as just representational political democracy? This seems to be the real question. You can always reproduce the Western model, that's not a big problem, but can we do something better, please?

PERRY: OK, I think Wang Hui started down that road in his first comments, talking about redistribution, but yes.

MAN: I just have a couple of questions about democracy. In recent years the CCP itself promoted the idea of the democracy inside of the party, *dangnei minzhu*. How do you tell the difference between *dangnei minzhu* and people's democracy. And how do you think about the process? Does this kind of democracy inside of the Party really serve the interests of the most people? So, could you give me some specific cases on this issue?

PERRY: Further questions, Peter?

PETER: I think Wang Hui did an excellent job of explaining some of the factors that contributed to the success in the pre-1978 period, since 1949. But I think one way to characterize the success would be that it's based on two - I guess they're not social-science principles- but it seems to me they are objective arguments. One is that the no matter how common the problem is, the way it's perceived, priority accorded to it, and the way it's responded to depends on where you are when you're there. Secondly, most of the problems we're talking about, inherently social, if you will, are characterized by a high degree of complexity, dynamism, and local specificity. Now, the success to this system so far seems to me to have been the manifestation and implementation of those basic realities, working within that framework. And I'd even argue that the change from '78 to '90 or '07 is a pragmatic response to a changing set of circumstances which have led to both China investing more when it's supposed to be spending more, and the U.S. spending more when it's supposed to be saving more. Both sides have recognized that in principle that's what they ought to be doing, but the immediate reality to which they're responding requires just the opposite. I would see that as an asset, not as a liability. My question for the panel would be: what factors are likely to move China away from that responsive model and introduce rigidity, a model, if you will, that would be more rigid and less able to respond to the location-specificity, complexity, dynamism of the problems which will inevitably confront China, as they will every other society in different forms?

PERRY: We'll turn back to the panel here. We have this room only for another 15 minutes or so, so we need to wrap things up, but let me give all the panelists an opportunity to respond to what's been raised. Who would like to start out? Pan Wei, why don't you.

PAN: Well, it seems that Chinese exceptionalism has always been the situation, no? But, social science theory wants the universal. I think, but once we reduce what we learned as universal to local knowledge, then China is local knowledge and both can be inspiring. If we talk about all about universalism and some patterns and the regulations then humans are like puppets of the law. And so it's boring for me, so I would like to see the pre-supposed universal laws as somehow understood as local. This is one point. Another is that I would like to talk about the dangnei minzhu, or "inside party democracy." Actually lots of people do believe in Westernizing the Chinese system. They failed in the grassroots way -- they had expected that the democracy, electoral-politics would go from bottom-up. But then the experiment failed. And then they want to imitate the Soviet model to split the party from within. That's the original idea, but now it seems that it's changed, diverted to another one by the Party itself talking about transparency. And whether this electoral politics could control corruption, I think it is quite clear from worldwide experience and from inside China that electoral politics increases corruption, it does not control or curb corruption. Another point is about investment - heavy investment, and less consumption. It is something from the command economy, and it's something also from this high-savings from the Chinese tradition, the idea of more investment for the future. And for me as for, I am going to be old and going to retire, I really want to government to invest in infrastructure. Because, in the future, we will have fewer younger people. And those younger people would make more money with advanced infrastructure. So that is a guarantee for our pension. And so, as an old person, I really want the state to invest more and consume less right now.

PERRY: Wang Hui? Would you like to respond? Oh, OK. Who would, other panelists? Sebastian?

HEILMANN: Something better, please, was the question here, in terms of models. I think really, this is something that I find challenging about China. I think that our established "mature" systems, advanced political economies, have really moved into a situation where there's much more uncertainty than most people actually accept. So there might be something about this 21st century in terms of complexity, in terms of volatility also, that's very different from what we have seen before. So I really think -- and this was the undertone of my presentation here -- that we have to move forward in terms of modernizing governance and policy-making modes, move to long-term policy-making. We cannot afford this kind of short-term-ism any more that we've become used to in the last century. So there's really something new here. China kind of poses some challenges, some questions. They don't find solutions that we can just replicate in our systems, but I think there's really something big going on. The credibility crisis that we have seen in the markets is only the beginning. This is only a small step actually now but it will become a credibility crisis for democratic governance also - for many democratic governments. We have this in some parts of that in Europe already. There are some indicators of that already in individual countries, and this is very serious.

So I really think this is a big project, actually. To look at China with curious eyes and to find out how they solve these problems, especially in the developing or emerging country context. There's a lot to learn in terms of how you keep it open, how you don't keep making it rigid. The last thing that I want to say, is I think there is a vision, actually, in China. It's not probably pronounced and announced in a public way, but it's really to become number one -- overtaking the U.S. And this will be the point in time - maybe, this is just a speculation - when rigidities start. Because then they are the superior system, and they are at the top. This kind of catching-up process is always easy, but as IR observations and theories show, the conflicts will probably aggravate. The closer China comes to overtaking the U.S., within the next few decades if this happens, the more conflicts will come up. It's again this dynamic where policy models and rigidities actually interact with this kind of dialectic and world politics also. So it's, for me, studying China's governance is really a much more general challenge that also applies to Western governance. I don't think we can move forward with this kind of short-term-ism that we have become used to in the last century.

PERRY: Professor Kokubun?

KOKUBUN: What China is facing right now is the, not the problem of social sciences, but reality. Now, today I mostly talked about the kind of analytical context of the Japanese case and the Chinese case. But on one point it's very different, because Japan experienced a lot and they failed many things, but in Japan, the failure did not have great impact on the world economy at all. Japan experienced by ourselves, and failed by ourselves. But now China is the center of the world economy. And we, the world - of course the United States, Japan - are heavily dependent on China's situation. So this is a bit different. I think China's present situation is very crucial. This is my observation. People are talking about what are the cleavages in Chinese politics or the economy. So far, there are no cleavages within the party, within the top leaders. Probably Xi Jinping is going to be the next leader. There are also no cleavages in the military, just vested interest everywhere. Probably nothing like Tiananmen coming, no probably student demonstration. What is the cleavages point? China's stability of course is heavily dependent on the economic growth, economic developments. We're just concerned about the economic crash these days - bubble. That is the key. Today I talked about the Japanese experiments, that was the beginning 20 years ago. We cannot recover in 10 years or in another 10 years, altogether 20 years. I think we are really concerned about China's economic situation; that could be another point of cleavage in the future. And the Chinese economy is a bubble, it is exactly happening! So it's going to be very dangerous. So probably Barry will talk about this. This is going to be the final word.

NAUGHTON: I guess I can't not take that up. To me, the different parts of this conversation raise the question of whether Chinese developmental policy will adapt within the next year or three years, five years to meet the needs of an increasingly sophisticated and prosperous economy. I'm not so worried about the contemporary bubble. I mean, I do - I worry about it for sure, but the bigger question to me is

whether the policy can start to move again in the direction of institutional reforms that will change the underpinnings for this sort of narrowly focused growth. In other words, can we have institutional reforms that change the land system? Can we have financial reforms that allow the financial system to be more diverse and more resilient? Let's let the currency appreciate a little, not because the Americans want it, but because it's good for the Chinese economy. In other words, there's a whole series of reforms -- it's not as if any is essential and has to be done in the next six months - but we need to see a renewal of movement in that direction, and I'm worried that we're not really seeing it. So that's sort of my worries, more than just the bubble.

PERRY: Wang Hui?

WANG: I'll try to respond to the democracy within the party system issue. I think that maybe I'm not the one to give the answer to whole issue. I do believe that, even historically speaking, we can find some mechanism from within. For example, political debates, the theoretical debates within the party, were not new things. The old things is that, those debates, long debates, series of debates, but without the democratization, democracy system to guarantee that every participants involved in these debates can, after they lose the debates, they still can be sustainable within the party. That's the old problem. But now, I think that a certain kind of the open discussion and the debates -- and it's, not only the election system, but also the opening up of the policy debates and the political debates within that -- I think it's important what kind of system can guarantee that certain kind of democratic that mechanism keep going on. That I think it's one. Second, it's not possible to have the pure democratic system within a one-party system, because already, the party has invaded the whole social network. So obviously the whole public debate is a societal issue, not simply with the party. I think it's, last year there were several, the cases we can see that, I mentioned some of that, like the sannong debates, health care debates, and some other debates. These did not start from the party; they started from the intellectual debates or the mass-media, but they can't translate into the policy debate within the system. That was not stable, but still you can find that interaction between these two systems. So in that way, we try to, we can try to find different kind of elements to develop more stable framework for that kind of transparency. I think that is important.

Second is that, for example, we talk about the Japanese, the case. On the one-hand, there are a lot of similarities; people talk about East Asia model and so on. But if you look at the experience, it is still quite different. Because looking back to the Cold War period, generally speaking, Japan, Korea, and Taiwan were much more in the Cold War structure and quite dependant on American leading the system. Without that framework, it is difficult to explain these developments. So in that way, it is different from Latin America, but a certain kind of dependant development could also explain that. You also can see that the consequences in their rise and fall, because the development occurred within that system. But the Chinese experience has a certain kind of uniqueness because in the Cold War structure it was much more self-reliant. Its economy only after the decades of reform was integrated into the whole world

system, so now the consequences, the ups and downs, they have become apparent in this way. At same time, I think about the bubble; there have been a lot of bubbles - real estate, obviously, and also there's a big threat to the financial system. But on the other hand, sometimes when I observe my own country, I feel quite contradictory. On the one hand you find a lot of problems, bubbles, and I'm worried about it so deeply. But on the other hand you find that sometimes the policy change was so quick. That's why when Neil Ferguson, after his visit to Chongqing, immediately realized how fast the change from the export-oriented economy to the domestic-driving economy in inland China was. So that's why he thought that in such a short period, even last year people said there's no way. But suddenly, there is some kind of the change. So in this case, I think that some kind of institutional renovation is happening. And at the same time, as well as, simultaneously, bubbles continued. So this is a contradiction for me. It's sometimes I have some hope, sometimes I feel despair. Contradiction is the only way to describe that.

PERRY: I would like to thank the panelists for an extremely stimulating several hours. I'll make a few closing comments myself, since Gwendolyn provoked me.

My own purpose in calling this session together is not to develop some new model to unveil to the social sciences, but rather to try to explain what has happened in China in the past 30 years. I think what we have available as Western social scientists doesn't give us very good leverage on it. Perhaps economists were less surprised than I suggested at the outset by the economic growth, but I don't think they really were. This is the fastest sustained economic transition the world has ever seen, and it's occurring in the biggest country in the world. This is extraordinary. Sure, they knew there was tremendous unleashed market potential, but to maintain this level of economic growth for a 30-year period is extraordinary, and to do it within a political system that is basically unreformed is, I think, a real challenge to the social sciences. Now, unlike Pan Wei, I'm not going to predict how long this will last. If Pan Wei is right, and it lasts for another 20 years, then I won't have to announce this to my colleagues in the Government Department; I think they'll all be studying it by that point, because it will be seen as a huge challenge to the models that we have.

So how do we explain this? I don't pretend to have the right answer, but like Pan Wei, I've been searching in China's past, looking at certain precedents out of the imperial period, out of the revolutionary period, out of the Maoist period, all of which I think are important, but none of which guaranteed this outcome. And that's why I wouldn't use the term China Model, which to me has a little bit too much of a kind of systematic, internally coherent, cohesive, predictable quality to it. To me, this is quite an unpredictable and quite an unexpected occurrence that is full of contingency, full of accident, full of human personalities, and yet does require some grounding in China's own past history to understand. It's in that spirit that I called together this panel. I think it's been really a very stimulating panel with very different viewpoints, and again I would really like to thank all five of the panelists for their very insightful comments. Thank you. [APPLAUSE]