SEEJE

Book Review

Transition and Development in China. Towards Shared Growth

by Yun Chen, Farnham
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reviewed by John Marangos*

China has experienced centrally administered socialism for around 30 years and market reforms for another 30 years. Thus the time is ripe for an assessment of the two strategies for economic development in China, as adequate equi-proportional empirical evidence has been accumulated. The author of this book approaches the transition in China in a very interesting, instructive, and innovative way. The starting point of the methodology adopted is political science, using the special field of "economics politics", instead of the traditional "political economy", with the desire to contribute something different from economic analysis. This innovative approach is married with behaviorism, also incorporating a psychological approach. The policy proposals developed have the goal of correctly solving social problems (p.3). The author points out throughout the book that the Chinese gradual transition has been the "fact-following type" rather than the "ideology-led type". Hence, with this in mind, the author has taken up this fact-finding task, revealing in a quite distinct way to the reader the essential facts which characterize the Chinese path of transition. Essentially though, through this methodological approach the author tries to identify the institutional reforms that are necessary for sustainable development in China. He concludes that without establishing a human-being-centered model of economic development, it is impossible to achieve successful modernization and transition. In the case of China, the goal should not be the transition of the economy from central administration to market relations, rather the transition of human beings. In this context, transition and development in China require growth to be shared, creating a large middle class. A rational development strategy (such as an outward-looking strategy towards a market oriented economy) and institutional reform (such as land reform in the initial stage) are required for shared growth to make for simultaneous modernization of human beings and industries.

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The first chapter analyzes the Mao Zedong framework for economic development. The socio-economic system of centrally administered socialism established under Mao Zedong caused an institutional inefficiency revealed by the relations between government and markets, path dependence and anti-path dependence recognized as a "fallacy of composition" by the author. It is not clear to me why this institutional inefficiency is described as a "fallacy of composition"; the author should have elaborated on this. In the second chapter and third chapter, I find extremely appealing the interpretation of Deng Xiaoping's gradual "reform and open door policy" as a means to establish "creative destruction". While still remaining within the "socialist" structure, the development of foreign-owned firms and privately-owned firms either "destroys" or rejuvenates the state-owned sector - effectively making the state sector "creative". In chapter four, the tax sharing system between central and local government is analyzed and policy recommendations are made. The Chinese relations between central and local government display, from a historical perspective, a cyclical pattern of "decentralization in the centralized system" and "centralization in the decentralized system". The deficiency of the tax sharing system in China is due to the authoritarian structure of the system - due to incomplete markets. Chapters five and six analyze the various characteristics of the East Asian model and attempt to answer the question whether China could follow such a model. The goal is to identify several empirical rules that are hidden within the authoritarian development systems of the East Asian region that are likely to come into existence in China. The last chapter presents the concluding remarks.

In the context of the book, the question arises: Why has China adopted a gradual approach, in contrast to central and eastern Europe? The author provides some very compelling answers: the transition process is linked with complexity and urgency, consequently the more complex, the less urgent, the more gradual the transition; the government did not have enough knowledge how to pursue and measure the transition process; the difference in traditional or popular culture; the lack of substantial learning effect caused by equal-sized countries located on each other's borders; and China's large size prohibited the financing of such a transition by international financial institutions and mature market economies, hence self-reliance was the only possible way out. I would like to elaborate further on the latter reason, because foreign aid from international financial institutions and mature market economies comes with strings attached. Financial assistance is provided only by implementing reforms consistent with the dominant ideology of neoclassical economies. The Chinese government was not willing to receive instructions regarding the nature and process of reform and transition, especially when these recommendations for the government are based on an unknown ideology and economic theory. Hence, instructions how to proceed were not acceptable, consequently the foreign aid attached to these instructions was lost. This is a substantial reason for which funding was not accepted by and provided to China – a reason which the author overlooked.

One concern of mine is the number of spelling and syntactical mistakes throughout the book. The publisher should have taken more care in assisting the author. If we disregard this weakness, I found the book interesting and exciting, and - most importantly - I learned something new. Yun Chen's contribution should be applauded and studied extensively