

Foreword

In February 2009, Glasshouse Forum convened leading academics to a China-West Intellectual Summit in Paris.

The starting point for the discussion was that 20 years have now passed since Francis Fukuyama launched his renowned thesis on the end of history. Liberal democracy on a capitalistic base had triumphed over its rivals. Those who did not adopt this system would be hopelessly outdistanced. The country that most clearly refutes this hypothesis is China. It has seen unparalleled economic development at the same time as the regime has retained its grip on society and the economy. Significant voices in the Chinese debate hold that China should not try to emulate the West, but find its own way.

Can one speak of a Chinese model, an authoritarian capitalism, which may even inspire others, in particular now when the crisis emanating from the USA is leading many to look critically at the West? It is noteworthy that nobody at the meeting championed Fukuyama's thesis, nobody saw any signs of China adopting liberal democracy.

It was also manifest that the Chinese participants considered China well positioned to handle the global economic crisis. There was uncertainty however over how to characterise the system in China and how one might theoretically describe the major changes that have taken place in recent decades. Representatives for the Chinese “new left” underscored the socialistic element, but it is not easy to grasp what “socialist market economy” in fact means. How should one define the Chinese economic model? What are the differences and similarities in the state's role in the market and welfare provision when compared to American liberal capitalism, the European social model and the Scandinavian welfare model?

There was no really satisfactory answer to these questions during the China-West Intellectual Summit, and Glasshouse Forum therefore asked the American political scientists Orion A. Lewis and Jessica C. Teets of Middlebury College to try to clarify matters in a comparative perspective, and to discuss the implications of the global economic crisis on China's socialist market economy. This is their report.

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Executive Summary

By comparing China's successful experience with market transition to that of Russia, we can see that China transitioned from a command to a market-based economy without the negative consequences of "shock therapy" by following a paradigm of gradual institutional reform based on the method of decentralized experimentation. Chinese leaders use the term "socialist market economy" to describe the resulting hybrid capitalist system comprised of a simultaneous state-supported and private sector. The ambiguity of this term, along with the ever-changing dynamics of economic reform in China, leads to the question of how to understand the balance of socialism and capitalism that exists in a socialist market economy.

Part of the difficulty in understanding the Chinese market is that it attempts to bridge the state-market relationship under a command economy with one under a market economy. The relationship between the state and the market follows a gradual evolutionary path, where policy constantly adapts to changing political and economic obstacles to further reform. The slogan "crossing the river by groping for stepping stones" (*mozhe shitou guo he*) most accurately describes this economic reform process. Instead of emulating a specific model of capitalism, Chinese leaders desire to promote a uniquely Chinese model of development.

We contend that the development of the socialist market economy is shaped primarily through elite disagreement over the appropriate relationship between state and market, and resembles an ad-hoc series of compromises between neo-liberal reformers on the right and the socialist left rather than a coherent "China model" of development. Neo-liberal market reformers dominated economic policy during the post-Tiananmen period of the 1990s, pushing through reforms to downsize the state-owned sector and transition to more of a regulatory state. However the "new left" – critical of neoliberalism and advocating greater social welfare – has emerged as an important political force in recent years. This current global economic crisis amplifies this trend, creating important implications for understanding China's future economic policy.