

Institutions and Policies Must Bear the Responsibility: Another Case of Nonantagonistic Contradiction

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When one writes a literature review, he normally does not expect to receive comments in the form of a paper-length critique. Professor Wing Thyee Woo's energetic response that appears in this issue to my review article "Chinese Economic Reform in a Comparative Perspective: Asia vs. Europe" (henceforth "Asia vs. Europe")¹ caught me by surprise. It is not merely a critique: it is an espousal of a counter theory. In this response, my critic was very sensitive to my perceived position in an ongoing academic debate in transition economics. In this debate, one side holds that the remarkable performance of China's economic transition justifies a unique way of economic reform and a particular set of non-capitalist institutions; the other side believes that the remarkable performance is a reflection of China's institutional convergence with the mainstream capitalist countries in the world. Woo attributes the former position to the Experi-

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¹Yu-Shan Wu, "Chinese Economic Reform in a Comparative Perspective: Asia vs. Europe," *Issues & Studies* 38, no. 4/39, no. 1 (December 2002/March 2003): 93-138.

mentalist School (E-school), and the latter position to the Convergence School (C-school).² As an ardent supporter of the C-school, Woo launched a critique on my review article that he considers an E-school exposition. I suddenly realize that I am in the middle of a battle of which I have been recognized as a combatant.

Although it was not my intention to endorse either of the two schools when I wrote the review article, I find it meaningful to respond to Woo's critique, less as a defense than as a follow-up to my original review. In "Asia vs. Europe" I argue that the 1990s witnessed China's rise and Russia's fall as a result of their respective economic reforms. I then identify two approaches in the field: the non-institutional and the institutional, with the latter holding sway. I further identify culture, stage of economic development, international environment, and pre-reform system as the main non-institutional factors cited in the literature to account for the huge performance gap between China and Russia in the 1990s, and I identify reform philosophy, speed of reform, property rights restructuring, and role of the state as the most often cited institutional factors.³ I then discuss those eight factors one by one, and find the institutional factors in general, and property rights and role of the state in particular, more powerful than other factors in explaining the performance gap between the transition economies in Asia and Europe. Finally, China and Russia are treated in my review as representing two modes of exit from state socialism, derived respectively from East Asia's capitalist developmental model and the West's neoclassic economics; I argue that China's better transition performance proves the effec-

²These schools are also expounded on in Wing Thye Woo, "The Real Reasons for China's Growth," *The China Journal*, no. 41 (January 1999): 115-37.

³One component of Woo's triad critique of "Asia vs. Europe" is "analytically vacuous key concepts," which questions why the pre-reform system is considered a "non-institutional" factor. The answer is clear. The institutional factors concern how new institutions are built; the non-institutional factors are the "initial conditions" given when economic reform was launched. The pre-reform system is an initial condition, and not part of institution-building. The speed of reform, on the other hand, concerns institutions, and is not part of the past. The distinction between "non-institutional factors" and "institutional factors" is important for it differentiates between what we are given and what we do, between objective conditions and subjective endeavors. I am glad that Woo raises this question so that I can enunciate my position more clearly.

tiveness of the East Asian model. In making these arguments, I am clearly neither in the E-school camp, for rather than treating the Chinese case as unique I instead consider it a variant of the East Asian development theme, nor in the C-school, for I do not endorse the view that China's transitional success owes to its institutional convergence with the libertarian capitalist model. Since I am not in the C-camp, however, I am criticized by Woo as espousing the position of the E-camp, of Chinese exceptionalism, and here one finds a not so minor misunderstanding.

Although criticized for what I am not, I think Professor Woo does raise important questions which I would like to address, in the spirit embodied in the title of his critique: "A United Front for the Common Objective to Understand China's Economic Growth: A Case of Nonantagonistic Contradiction." In the following discussion, I will put Woo's critique in the context of the C-school position that he endorses. I argue that the need for the C-school to explain why policies derived from their position yielded a miserable performance in Russia, as compared with China, prompts an overemphasis on the non-institutional factors (particularly on economic structure), which constitutes the bulk of Woo's critique. To inflate the importance of the non-institutional factors is to reduce the significance of the reform policies in determining the outcome, so that Russia's misery and China's success are attributable to factors beyond the control of policy-makers adhering to C-school tenets. After inflating the relative importance of the non-institutional factors, Woo nevertheless finds it important to directly defend the C-school policies, and he does so with regard to both the Chinese and Russian cases. He makes two arguments concerning decision-making in these two countries. The first one states that China's reformers as early as the 1980s were committed market liberalizers who would have adopted unfettered capitalist reform policies had they had the opportunity to do so—i.e., had they been free from the political constraints imposed by the conservatives in the party, and by the need to save the face of the Chinese communist regime. The Chinese incremental reform thus does not have merit in itself, for it simply reflects political conflict in the CCP leadership. The second argument is that Russia did not have any policy alternative when "shock therapy" was implemented in the early 1990s, and

that the Chinese-style two-track system would not work in Russia. These two arguments point to one direction: the C-school policies are the best policies for both China and Russia. China would have adopted them had their liberal reformers had such opportunity, and Russia had no policy alternative when adopting them. My response to these defensive attempts is the following: non-institutional factors should not be overemphasized, policymakers (and not economic structure) bear primary responsibility for the outcome of economic transition, China did not have free market believers leading the reform wing and would not have achieved remarkable success had it heeded the advice of reform orthodoxy, and Russia's "shock therapy" is certainly not the best possible policy for the country. Finally, I argue that China has now evolved closer to the East Asian developmental model than any other economic system, and one can gain useful insight into China's future development through the post-WWII East Asian experiences.

Inflated Non-institutional Factors

The contrast between China's rise and Russia's fall after the initiation of economic reform is stunning, like day and night. This phenomenon creates a problem for those who adhere to neoclassic economics, for Russia followed a reform strategy directly derived from the reform orthodoxy propagated by the Western pundits while China trod a reform route that contradicts many of its tenets. How did orthodox reform policies beget miserable performance, while heterodox policies brought about miraculous growth? This is the mystery that the C-school proponents have to unravel, for to them the institutions of Western capitalism are the only set of economic institutions that work, and the performance of transition economies has to bear this assumption out.

One easy way out is to emphasize the initial conditions, or the non-institutional factors, such as culture and the stage of economic development; one could argue that somehow those conditions and factors predetermine the outcome of economic reform, disregarding the different reform

strategies that the various transition economies adopted and the different institutional goals that they pursued.⁴ This way, policies and institutions would not bear the principal responsibility for the reform outcome. The performance gap between the Chinese and Russian economic reforms is thus attributed to the conditions already existing when their respective reforms began (i.e., the initial conditions), and not to the concrete policies the two governments adopted.⁵ The causal relation between Russia's "shock therapy" and the following output collapse and hyperinflation, as well as the relation between China's incremental reform and two decades of high growth, are attenuated.

In this context, one finds the bulk of Professor Woo's critique concentrating on the importance of the non-policy, non-institutional factors. As he emphasizes in the first of his three conclusions, "different results that we see in China, Vietnam, Poland, and Russia immediately after the implementation of different economic reform programs stem more from their differences in economic structure than from the economic strategies implemented." Even though he stresses economic structure as the most important factor, Woo protests against the way I discuss all non-institutional factors—including culture, international environment, and pre-reform system—in addition to economic structure. In "Asia vs. Europe," I use invalidating cases to demonstrate that the non-institutional factors do not correlate well with performance. Thus, for example, inherently slow cultural evolution cannot explain drastic change in economic performance. For Woo this means I assume that culture could have only a linear impact on performance, and that all the other variables are held constant. What Woo has in mind as a proper frame of analysis is a nonlinear function of

⁴Another easy way out is to dilute the China-Russia contrast by arguing that the Chinese reform has numerous defects, that its growth has been overestimated, or that its trajectory in the past cannot be sustained into the future. It can also be argued that the Russian reform under Boris Yeltsin was more effective and beneficial than widely deemed. It is important that Professor Woo and I agree on the existence of a wide performance gap between the Chinese and Russian transitional economies. We disagree on the cause(s) of the gap, though.

⁵Peter Nolan makes the same argument in Peter Nolan, *China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism* (New York: St. Martin's, 1995), 7.

multiple variables. After suggesting this, however, Woo cites the case of Mongolia to demonstrate that free-trade and liberal foreign direct investment (FDI) policies do not determine performance, for although Mongolia adopted those policies just like in China's free-trade enclaves, there was no export expansion in Mongolia. Woo then points out that it was geographical isolation that prevented Mongolia from having an export-led boom that free-trade and liberal FDI policies are designed to bring about. Methodologically speaking, what we have here is that Woo finds that policies and performance do not correlate, and then he dismisses the importance of policies and suggests that another factor (geographical location) can better account for performance. One is then bewildered to find no difference between Woo's practice and what he criticized, i.e., my finding that culture and performance do not correlate, and suggesting that another factor (institution) can better account for the performance. Where is the nonlinear function of multiple variables in the Mongolian case? It is interesting to note that even though Woo protests the way culture and international environment are treated in "Asia vs. Europe," and even though he adds geographical location as an important factor bearing on reform performance, he did not include any of those non-institutional factors in his final account. Economic structure is the only non-institutional factor that enters his conclusions. One would be tempted to know how he dismisses culture, international environment, and geographical location when he states that different results of economic reform in Russia and China mainly stem from differences in economic structure.

In "Asia vs. Europe," I mention several mechanisms discussed in the literature through which stage of economic development supposedly bears on transition performance. One such argument is that agricultural reform in the form of decollectivization and reviving family farming is relatively easier than industrial reform that necessarily involves painful trade-offs.⁶ This is the argument that Woo adopts when he states that China and Viet-

⁶Susan Shirk, "The Political Economy of Chinese Industrial Reform," in *Remaking the Economic Institutions of Socialism: China and Eastern Europe*, ed. David Stark and Victor Nee (Stanford, Calif.: Stanford University Press, 1988), 328-62.

nam face the challenge of moving surplus agricultural labor into industries, while Russia and Poland face the classic adjustment problem of moving employed labor from uncompetitive industries to newly-emerging efficient industries, and "the fact is that economic development is easier than economic adjustment both practically and politically." Although well anchored in the "economic structure" literature, Woo's argument is not convincing in itself. Industrialization and development require capital that is in short supply in developing countries, including China. Human capital is also critical, and is also in short supply. The very fact that three decades of Mao's draft industrialization did not turn China into an industrialized economy demonstrates the difficulty in industrializing a huge underdeveloped country. What turned China around is no less than Deng Xiaoping's (鄧小平) "second revolution."⁷ The assumption—that China's task of industrializing its economy while making structuring reform is by nature easier than Russia's economic adjustment task of moving labor from industries to industries—does not stand to reason. In fact, the contrary is closer to truth. As Hu Angang (胡鞍鋼) argues, China managed to outperform its erstwhile mentor Russia *despite*, and *not because of*, all the structural disadvantages (low per capita GDP, under-industrialization and under-urbanization, vast rural population, enormous surplus labor, low literacy, deplorable management quality, etc.) that China suffered compared with Russia.⁸ In short, I argue that non-institutional arguments in general, and structural arguments in particular, should not be overemphasized.

Incorrect Narrative of the Chinese Reform Process

Woo makes two decision-making arguments concerning China and Russia. He asserts that China reformed in piecemeal manner because the

⁷Harry Harding, *China's Second Revolution: Reform After Mao* (Washington, D.C.: The Brookings Institution, 1987).

⁸Hu Angang, "Introduction," in Wang Hui (王輝), *Jianjin geming: Zhongguo jingji gaige zhilu yu renli zichan* (Gradualist revolution: The path of China's economic reform and human capital) (Taipei: Zhiliang chubanshe, 1998), 2-3.

Chinese elite was split between the conservatives and the liberal reformers. After 1992, the line conflict abated and China pursued reform more resolutely. Hence it was political logic and not the Chinese penchant for "experimentalism" (摸著石頭過河, *mozhe shitou guohe*) that determined the reform strategy. "Asia vs. Europe" was charged with providing a "factually incomplete and politically naive historical narrative" when it accepts the argument that the Chinese reformers are non-ideological realists who conducted economic experiments to guide their policies.

Woo is clearly right in pointing out that there was conflict among the Chinese elite over the reform strategy. CCP factional politics was intrinsically linked with the reform cycles in the 1980s.⁹ That fact, however, does not conflict with the observation that the reformers were realists who experimented to find the right way. Both facts (elite conflict and realistic reformers) explain the incremental and cyclical nature of the Chinese reform. When the reformers held sway, they implemented policies that granted greater control power to the property users (farmers, managers, etc.) and provided incentives for them to exercise their control power efficiently. The reformers, however, did not know how fast and how far they should go. They often used "trial points" (試點, *shidian*) or adopted local spontaneous reform models and propagated them across the country.¹⁰ They usually did not have a clear blueprint as they launched reform policies. The chief architect of reform, Deng Xiaoping, did not have a master plan. He stated so and his actions proved it. Neither, moreover, did Hu Yaobang (胡耀邦) or Zhao Ziyang (趙紫陽) have a grand plan. It is then a bit "factually incomplete and politically naive" for Woo to assert that "the liberal reformers ... believed that only a private market economy could develop China." This is to associate wrongly the image of the European reformers (Yegor Gaidar, Vaclav Klaus, etc.) with their Chinese counterparts.¹¹ The

⁹For an exposition of the relation between factional politics and reform cycles see Lowell Dittmer and Yu-Shan Wu, "The Modernization of Factionalism in Chinese Politics," *World Politics* 47, no. 4 (July 1995): 467-94.

¹⁰The household contract responsibility system is a good example of the latter.

¹¹On the nature of the European reformers I am in full agreement with Professor Woo. He states that "there exists in Polish and other Eastern European societies a basic consensus on

fact is that none of the major reformers in the 1980s were liberals to the extent of embracing a private market economy for China. In 1987, for example, Zhao's favorite formula remained "the state tuning the market, market guiding the enterprises" (國家調控市場, 市場引導企業, *guojia tiaokong shichang, shichang yindao qiye*)—hardly the ideal of a free market believer.¹² This being the case, one cannot imagine the reformers "marketizing quickly and comprehensively, giving equal legal recognition to private enterprises, and undertaking significant privatization of state enterprises" even if they had such opportunities in the 1980s. In short, the early Chinese reformers were not free market believers, let alone proponents of private property. They only had a general idea as to the direction which reform should take. This fact, coupled with the obstruction of the conservatives and the very "trial and error" nature of the reform process, explains the incremental and cyclical nature of the Chinese economic transition in the 1980s.

As it turned out, China's practical, non-ideological approach and containable factional politics led to a two-track system that proved conducive to hyper growth and manageable inflation in the 1980s. More importantly, the regime learned. The 1990s, and particularly the latter half of the 1990s, witnessed slower but more sustainable growth, rapidly declining and then negative inflation, and unprecedented stability.¹³ Improved contractionary policy and changing property rights structure both contributed to the stability of the late 1990s. The twenty odd years of reform have been a laborious process of trying and learning. It has not been a duel between the diehard conservatives and committed reformers with clear ideological blueprints in their minds. The transformation of the Chinese reformers

what the final shape of their societies should be. The Eastern Europeans wanted to rejoin Europe, and so the reform debate there was mainly about the speed—rather than direction—of reform."

¹²Milton Friedman, *Folimin zai Zhongguo* (Friedman in China) (Hong Kong: The Chinese University Press, 1991), 126.

¹³The average growth rate for the latter half of the 1990s was 8.76 percent, compared with the 9.71 percent of the whole decade of the 1990s and the 9.75 percent of the 1980s. The average inflation rate for the latter half of the 1990s was 3.2 percent, compared with 6.1 percent for the whole 1990s and 7.3 percent for the 1980s.

since the late 1970s is as conspicuous as the reform process itself. As pointed out by Woo, the Soviet collapse was a watershed, prompting the Chinese leaders to surge ahead with new rounds of structural reform so as to avoid sharing the fate of the European communist regimes. To imagine the reformers prior to that time as true believers of free market and private property simply flies in the face of evidence. Even since 1992, what the reformers have been gearing China to is not a private market economy envisioned in the reform orthodoxy, but rather a developmental capitalism in which the state plays a much more critical role. This East Asian model was learned bit by bit, necessitated by the changing environment and by the regime's ultimate goal of sustaining respectable growth and maintaining political stability and power monopoly. The Chinese reformers gradually moved into this mode of development, not by design, but by experimentation and by learning. To think that the early stage of Chinese reform was a duel between Western-minded reformers and diehard communists, and that the latter stage has become a sturdy pursuit of private market economy, errs in imposing a dichotomy of "communism vs. capitalism" that does not exist in China.

Russian "Shock Therapy" Difficult to Salvage

The second decision-making argument made by Professor Woo concerns Russia. It is emphasized that whatever the merits of the Chinese incremental, two-track system, it was not applicable to the Russian reform. Woo's main point is that the Chinese reform model had been tried and found wanting through Mikhail Gorbachev's *perestroika* (restructuring) while the Soviet Union was still around. In this respect, Woo consults Anders Åslund's authoritative account of Gorbachev's economic reform, the dismal failure of which taught a lesson to the Russian reformers in the post-Soviet era.¹⁴ Woo contends that the Chinese two-track model could

¹⁴ Anders Åslund, *Gorbachev's Struggle for Economic Reform: The Soviet Reform Process, 1985-88* (Ithaca, N.Y.: Cornell University Press, 1990).

not work in Russia because the country's SOE sector was too large. Any attempt to keep the state sector afloat, as the Chinese did (paying higher wages than non-state enterprises, generous pensions, heavily-subsidized housing, medical coverage, child-care, food, recreational facilities, etc.), would have caused such a financial drain and money creation that hyperinflation would have been unavoidable. A large SOE sector also meant that the Russian government was unable to keep the enterprises fulfilling production quotas at plan prices. Finally, the large Russian SOE sector meant that the government could not sufficiently monitor all the enterprises and that spontaneous privatization was already rampant. All the above considerations prompted the Russian government to opt for "shock therapy." In contrast, China's relatively smaller SOE sector was much more manageable and much more affordable. Furthermore, China was in a position to create new enterprises as the main source of growth because it could count on the inflow of higher income-seeking rural labor. Russia did not have such a reservoir of surplus agricultural workers and new enterprises could therefore not be created without first privatizing the existing SOEs. Gorbachev's experiment with cooperatives vividly demonstrates the difficulty of transplanting China's reform pattern to the Russian soil. Woo thus contends that Russia did what it had to do, and the Chinese model was not a policy alternative when Boris Yeltsin and Yegor Gaidar launched "shock therapy."

Woo makes a plausible argument here. However, one has to look carefully into the historical case to determine its validity. First of all, one will never know whether Gorbachev's economic reform would have brought about desirable results in the long run for very soon after reform was launched the Soviet Union was torn apart by separatism. The fact that Gorbachev initiated *demokratizatsia* (democratization) while economic reform had just been launched made it impossible to evaluate the net effect of his Chinese-style reform. It can be argued that the introduction of elections was what had deprived the government of the power to check rising inflation, and the eruption of ethnic separatism rendered the federal government powerless to implement any reform policies. Given these probabilities, one should not lightly dismiss the applicability of the Chinese-style

reform in Russia.

Furthermore, the essence of incremental reform in China has been to seek growth under reasonable stability. Whenever stability was jeopardized, the regime consistently halted economic reform or moderated its tempo, underwent internal debate, waited for the society to recover, and then relaunched reform. The two-track system is a manifestation of that basic philosophy. Russia could have used the same philosophy to design its concrete reform plan, with or without the two-track system. The fact is that when the Russian reform was launched in 1992, too much emphasis was put on overnight price deregulation and rush privatization. The Russian reformers clearly had political considerations in mind (to deprive the communists of their power base) and reacted too strongly against *perestroika* (Gorbachev's Chinese-style reform). Their Western advisers relied too heavily on the reform experiences of post-WWII Germany (Ludwig Erhard's overnight deregulation of price) and Latin America (Chile and Bolivia).¹⁵ This "learning" was inappropriate, to say the least. With the collapse of the Soviet system, the zeal to join Europe was so great and the appeal of market private economy was so strong that the Russian reformers and their Western advisers rushed to snatch their ultimate prize—the dismantlement of the command economy. Little thought was given to the usefulness of the old system. That was thinking reserved for the communists. The Yeltsin regime thus boldly plunged into an area where only the Poles had gone before, and at maximum speed. Again, this was not the only option at the time. In sum, the insufficient evaluation of *perestroika*, political expediency of the time, undue reliance on experiences from other areas and institutional settings, pro-Western ideological fervency, and the zeal to join Europe all led to the Russian "shock therapy," which in many ways was an economic disaster. It is very doubtful that the reform route Russia had trod was the best possible way for the country.

According to Woo, there is a further lesson from the Gorbachev re-

¹⁵For the inappropriateness of relying on the Latin American experience, see Joseph Stiglitz, "More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus," WIDER Annual Lectures 2, Helsinki, January 1998.

form that the Chinese fourth-generation leaders should heed. Woo states that Gorbachev concluded from the failure of *perestroika* that the biggest obstacle to the development of a market economy was the Communist Party itself, and that is why the former President undertook political reform. Woo then advises the Chinese to "make adroit changes to the nature of the political regime to accompany the changes in the economic regime." It is indeed very politically naive to imagine that this would be the political lesson the Chinese communist leaders would draw from the Gorbachev case. It has very much been established that the response of the CCP regime to the Soviet collapse was to proceed with economic reform, sustain growth and stability, and tighten political control. Gorbachev's grand mistake resides precisely in his undertaking political reform that incapacitated the state machine and led to an eruption of ethnic separatism. The Chinese communist leaders would thus understandably seek to avoid, instead of mimic, what Gorbachev did. The decision by Deng Xiaoping to substitute economic reform for political reform was the correct one, from the regime's point of view, because communist rule today is more consolidated than during the turbulent Tiananmen (天安門) period, and the country is poised to challenge American hegemony in the coming decades. Why on earth would the fourth-generation leaders in the Forbidden City (紫禁城) seek to change the course set by Deng and sustained by Jiang Zemin (江澤民), and therefore risk their political necks when there appears no need whatsoever at the present time? I cannot but conclude that Professor Woo's desire for democracy led him to proffer the above advice, and to suggest that Gorbachev's failure somehow shows the Chinese new leadership that political reform is the right way for the regime. In sum, the Gorbachev experience could only mean one thing for the CCP regime: political reform should at all costs be averted. What else can the Chinese communist regime conclude from the demise of the Soviet Union?

Evolving into the East Asian Model

Woo mentions that he has serious reservations about the transition

economies adopting East Asia's "capitalist developmental model."¹⁶ This is because that model is only applicable to catch-up development (hence Japan's decade-long malaise), and would not be tolerated by the advanced developed countries. These are weak points indeed. First, China is at the catch-up stage. When Taiwan and South Korea were at a similar level of development as China is today, they were capitalist developmental countries par excellence. This means there is no lack of structural need for the Chinese to adopt the East Asian model that has proven so successful in the past in bringing about high growth. Secondly, it is correct that the developed world does not want to tolerate the mercantilist policies that were practiced in the past by the capitalist developmental states. It is equally true, however, that the sheer size and growth potential of the Chinese market give Beijing bargaining chips that were not in the hands of Taiwan or South Korea in the past. As China's economy grows stronger, its bargaining power will increase correspondingly. Furthermore, many of the capitalist development practices are now conducted by the *local* governments in China that do not directly face international pressure. The capitalist developmental model is a convenient habitat for a China that has gradually exited from state socialism yet has not made up its mind to become a "normal capitalist economy." It is an "atypical capitalism," and in terms of its ability to generate growth and to stabilize the regime's political control, this model may be much more powerful than "typical capitalism." It would be a big surprise if the leaders in Beijing do not recognize the usefulness of this model. In fact, it can be argued that many of the features of the East Asian developmental model are already present in China—including technocratic rule, private sector as the main growth engine, state control of economic parameters, export expansion, and legitimization of the

¹⁶For a classic exposition of the "capitalist developmental model," see Chalmers Johnson: *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, Calif.: Stanford University Press, 1982); and "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan," in *Asian Economic Development—Present and Future*, ed. Robert A. Scalapino, Seizaburo Sato, and Jusuf Wanandi (Berkeley: Institute of East Asian Studies, University of California, 1985), 63-89.

authoritarian regime through economic performance. It remains to be seen whether China will stay for a protracted time at the capitalist developmental stage.¹⁷ It is advisable that China observers emancipate themselves from the socialism-capitalism dichotomy, and contemplate the possibility that China has trod a route laid by early capitalist developmental countries in East Asia and may stay on that route for a considerable period of time.

In his critique of "Asia vs. Europe," Professor Woo shows he detests authoritarian regimes, and considers the nondemocratic nature of those regimes to be irrelevant to economic growth. Two points should be made clear here. First, authoritarianism takes different forms. Soft authoritarianism may be compatible with formal democracy but reserves ultimate decision-making power in the hands of economic bureaucrats—as in the case of Japan.¹⁸ A popular democratic regime may also carry authority much greater than its authoritarian predecessor, and thus be more capable of implementing painful economic reform policies—as in the case of post-communist Poland.¹⁹ Obviously what matters is not simply regime type, but the ability of the state to implement unpopular reform measures. This being said, I still conclude in "Asia vs. Europe" that other things being equal, an authoritarian regime committed to economic stability and growth has a better chance of reaching its goals than does a democratic regime so equally committed.²⁰ On this point Peter Nolan and Gordon White are in agreement with me, while Woo is not.²¹ Woo replaces regime type with reform coalition. He asserts that sustained economic reforms require not political repression but the leadership's commitment to economic prosper-

¹⁷Note that even Japan has not completely grown out of this stage, and rapid financial liberalization was one of the main reasons for the 1997-98 crisis in this region.

¹⁸See Johnson, *MITI and the Japanese Miracle*.

¹⁹Yu-Shan Wu, *Yuanli shehui zhuyi: Zhongguo dalu, Sulian han Polan de jingji gaige* (Away from socialism: The economic transformation of mainland China, the Soviet Union, and Poland) (Taipei: Cheng-chung, 1996).

²⁰Wu, "Asia vs. Europe," 132.

²¹See Peter Nolan, *State and Market in the Chinese Economy: Essays on Controversial Issues* (London: Macmillan, 1993); and Gordon White, "Democratization and Economic Reform in China," *The Australian Journal of Chinese Affairs*, no. 31 (January 1994): 73-92.

ity, which in turn requires quick forging of a pro-reform coalition. Note that the need to forge a manageable coalition during the stage of deepened import substitution prompted the militaries in Latin America to launch coups and establish junta regimes across the continent in the 1960s and 1970s.²² Coalitions are easier to form when there are fewer actors to include—as is the case with authoritarian regimes. In short, despite its unpleasant nature, an authoritarian regime committed to economic reform is better equipped to pursue the reform policies than a democratic government.

Conclusion

Professor Woo is a leading figure in transition economics, and I appreciate his energetic response to my "Asia vs. Europe" article. His critique is a defense of the C-school against the East Asianists who suggest that China's reform track record and its future development do not converge to typical capitalism. Even though I do not endorse Chinese exceptionalism, I nevertheless propose an East Asian model that Woo rightly criticizes, from the C-school's point of view. I agree with him that our debate carries significance beyond two particular viewpoints, and nothing less than conflicting schools of thought are involved.

In my "Asia vs. Europe" review article and in the following exchange of opinions between Wu and Woo, I detect similarities with an academic debate of almost twenty years ago concerning the explanation of the rise of the East Asian newly industrialized countries (NICs). Several prominent approaches in that debate were the cultural argument (Confucianism fosters business spirit), international environment and historical contingencies (the Cold War offers unique opportunities), colonial legacy (infrastructures left by the British and Japanese), open-door policies and market reform (a

²²See Guillermo A. O'Donnell, *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* (Berkeley: Institute of International Studies, University of California, 1979).

version of neoclassic explanation), and developmental state model (industrial policy). There are striking similarities between those arguments and what we have here in transition economics concerning the reform performance of those countries exiting from state socialism. The remarkably successful stories of the East Asian NICs, particularly the four dragons, were cited by the various approaches in the debate as testifying to their validity. Now we have all the contending approaches trying to use the even more successful case of China (at least in terms of sheer magnitude) to prove their validity. In the NIC debate, the main theoretical contestants were those advocating the liberal and open economic policies, and those assigning a major role to the developmental state and its industrial policy. In the current debate concerning the rise of China and the fall of Russia, we may be moving toward a similar debate between the neoclassic economists and the neostatists. This debate in transition economics is important, for what is involved is not the development stories of several small to medium-sized Asian countries, but rather Russia (a former superpower) and China (the most promising challenger to American hegemony). Scholars in the field need to be open-minded and let no preconceptions or ideological preferences obscure the true picture. Most important of all, there needs to be ongoing academic debate and scholarly exchanges. For this, I thank Professor Woo and his seminal comments.