Issues & Studies: A Social Science Quarterly on China, Taiwan, and East Asian Affairs
Vol. 56, No. 4 (December 2020) 2050004 (26 pages)

DOI: 10.1142/S1013251120500046

Whither Chinese Market Socialism?

KANG CHEN

This paper aims to shed light on where China's reform process is heading by tracing the trajectory of its market-oriented reforms. It shows that Chinese market socialism is facing a dilemma. Developing the capital market and hardening local government budget constraints which are necessary for the structural adjustment of the economy would require China to go beyond the limits of market socialism. Focusing on socialist values and ideology might gain more political traction for the party but could also seriously change the political climate and trigger an unorganized collective action among government officials that unleashes massive bureaucratic interventions and destroys the market's vitality.

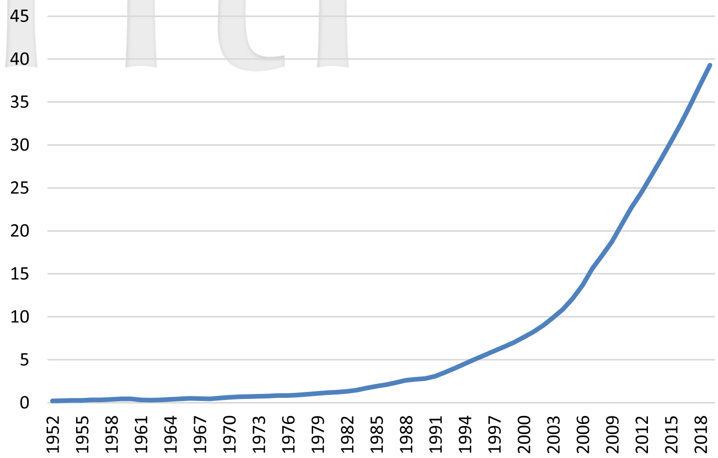
KEYWORDS: **China; market-oriented reform; market socialism; political legitimacy; soft budget constraint.**

* * *

論 China has maintained a high rate of economic growth since it embarked on market-oriented reforms in the late 1970s. By the end of 2019, its Gross Domestic Product (GDP) in real terms had grown to 39 times what it was in 1978 (Figure 1). Within 40 years, the world's most populous country has transformed from a poor, low-income economy to an upper-middle-income one with a per capita GDP exceeding US$10,000.

China's rapid economic growth, however, has been achieved at the expense of widening income inequality, rampant corruption, environmental degradation, and escalating government debt. It also created rising expectations and social tensions. Upon assuming his new position in late 2012 as the secretary of Central Commission for Discipline Inspection of the Chinese Communist Party (CCP), Wang Qishan recommended *The Old Regime and the Revolution* by Alexis de Tocqueville to party leaders

KANG CHEN (陳抗) is a Professor in the Lee Kuan Yew School of Public Policy at the National University of Singapore. His research interests include behavioral economics, macroeconomic models, and China's economic reform. He can be reached at <chenkang@nus.edu.sg>.



Source: CEIC China Premium Database.

Fig. 1. China's GDP index (1952–2019, 1978 = 1).

as an important read, alluding to the danger of instabilities created by high economic growth.[1] President Xi Jinping also felt the urgency of the structural adjustment of the economy. He announced soon after taking over office that China was to move into a "New Normal" with three distinguished features — the economy is to shift to a slower and more sustainable rate of growth, the economic structure is to be constantly improved and upgraded, and economic growth is to be driven by innovation instead of input and investment.[2]

While the slowdown of economic growth is evident, how the economic structure is to be adjusted remains unclear and is a subject of heated debate. When market-oriented reforms were first introduced in the early 1980s, China's reformist leaders were under the influence of the "market socialism" that Hungary had experimented with since 1968. They believed that the market is a useful tool which could be employed under socialism[3] — government administrators once being relieved of the mundane daily tasks of coordinating economic activity could stay on top of the market and intervene whenever necessary on the social welfare grounds; market and socialism

[1]See <http://www.xinhuanet.com/politics/2013-01/18/c_114410249.htm>.

[2]See <http://www.china.org.cn/world/2014-11/10/content_34012582.htm>.

[3]Socialism is defined as a regime characterized by one-party political system, monopoly of power, and dominant role of public ownership. Deng Xiaoping thought that market forces are a means of controlling economic activity and can be used to improve productivity under socialism; adopting market forces will not affect the nature of a socialist economy and turn it into a capitalist one. See "We can develop a market economy under socialism," a speech made on November 26, 1979 and included in *Selected Works of Deng Xiaoping* (X. Deng, 1995).

could thus complement each other by combining their advantages and minimizing their shortcomings. That belief is now being seriously questioned.

People from the left believe that today's problems, especially income inequality and corruption, are caused by private ownership and capitalist elements brought in by market-oriented reforms. The direction of structural adjustment should therefore be to expand socialist elements such as public ownership and government control and to scale back private enterprises. The microblog site of *Qiushi*, a magazine affiliated with the Central Committee of the CCP, published an article in early 2018 written by the Marxist theorist Zhou Xincheng, who reminded everyone that eliminating private ownership is the mission of communists according to *The Communist Manifesto*.[4] Inspired by President Xi's speeches which assert that state-owned enterprises (SOEs) are the pillars of "socialism with Chinese characteristics" and should continue to grow stronger, better and larger,[5] Zhou argued that although private ownership is allowed to play a supplementary role at the elementary stage of socialism, socialist elements must expand and private ownership should be curtailed as society becomes more productive and moves into a more advanced stage of development. This argument was pushed further and elaborated upon by the microblogger Wu Xiaoping, who opined that "it is time for China's private sector to gradually exit as it has accomplished the task of helping the public sector grow the economy."[6] Neither Zhou nor Wu are well-known public figures, and their views could have gone unnoticed. That their statements went viral on the Internet and were overwhelmed by responses from netizens indicates that many people are watching this debate with high levels of anxiety.

Liberals, on the other hand, think that the problems China is facing are mainly due to half-baked reforms which, not trusting the market, rely too much on government control and intervention. They believe that it has come to a stage where political reforms cannot be avoided or delayed further as they are necessary to push forward market-oriented reforms by establishing the rule of law, limiting the power of the state, and redefining the role of the government in resource allocation (W. Zhang, 2012).[7] Even those who are in favor of government intervention agree that the government should reduce its monopolistic power in key sectors like the financial industry so that resources can be allocated not just to SOEs and firms favored by the government but

---

[4]The article is reprinted at <https://finance.sina.cn/china/cjpl/2018-01-14/detail-ifyqqieu6378090.d.html?from=groupmessage>.

[5]Xi made several such speeches. See, for example, <http://www.xinhuanet.com/politics/2016-07/04/c_1119162333.htm>.

[6]Reported at <https://finance.ifeng.com/a/20180912/16498243_0.shtml>.

[7]See also Wu (2008), Tian (2011), and W. Yang (2018).

also to small and medium-sized enterprises. This would allow profits and wealth to be shared much more widely and reduce income disparities (Lin, 2011). While the calls for political reform have not been taken seriously and are sometimes even suppressed, the government did promise to let the market play a decisive role in allocating the resources.[8] Progress in this area, however, has been rather slow and there are serious contradictions between policy statements and the revealed preferences of policymakers (Dittmer, 2017).

The foregoing discussion shows that China is facing a huge amount of uncertainty as reforms enter the fifth decade. The CCP has claimed legitimacy from various sources, and their relative importance had shifted throughout the reform process. In the earlier decades when the country was still poor, a high importance was attached to economic growth. However, as high economic growth has improved living standards but also created rising expectations and social tensions in recent decades, Chinese leaders have found it necessary to shift their emphasis toward a more ideological approach to reclaim the CCP's right to rule.

This paper aims to shed light on where China's reform process is heading by tracing the trajectory of its market-oriented reforms. It will show that although the reforms have been more comprehensive than Hungary's in the 1970s and 1980s, they still retain three important characteristics of Hungarian market socialism: investment hunger, soft budget constraints, and a simulated capital market. Additionally, this paper will also show that Chinese market socialism is facing a dilemma. Developing the capital market and hardening local government budget constraints which are necessary for the structural adjustment of the economy would require China to go beyond the limits of market socialism. Focusing on socialist values and ideology might gain more political traction for the party but could also seriously change the political climate and trigger an unorganized collective action among government officials that unleashes massive government intervention and destroys the market's vitality.

The rest of the paper is organized as follows. Next section traces the trajectory of reforms from 1978 to 1992, showing how the spontaneous reform process helped the CCP to reclaim legitimacy and lead to its adoption of market socialism at the end of the period. The third section focuses on the period from 1993 to 2012, illustrating the inconsistencies created by market-oriented reforms and showing how those inconsistencies were mitigated through recentralization and the regaining of government

[8]The statement was made at the third plenum of the 18th CCP Central Committee and reiterated at the 19th National Congress of the CCP. See "The communique of the third plenum of the 18th CCP central committee," November 18, 2013.

control. The fourth section shows how changes in the political climate in the post-2005 period can lead to changes in the preferences and expectations of government bureaucrats, leading to a serious setback in market development. The final section concludes.

Development is the Only Hard Truth (1978–1992)

China was not a textbook case of central planning in the pre-reform era, although it inherited all the major problems of a planned economy (Chen, 1998; Naughton, 1988). By introducing a market mechanism and removing key institutional barriers, reformist leaders were able to release great potential for economic growth. However, market-oriented reforms could not be pushed from the top down because of strong opposition from planners (Chen, 1998). Hence, the reformers devised an incentive-compatible mechanism through fiscal and administrative decentralization so as to align the incentives of local government officials and enable bottom-up reforms (Shirk, 1993). By proclaiming that "development is the only hard truth," Deng Xiaoping persuaded the CCP to shift its focus from socialist ideology to economic development. From 1978 to 1992, the goods and services market had been gradually developed through rural reforms and concerted efforts to end the shortage of consumer goods.

Realizing Surplus Potential Output

The most serious problem in pre-reform China was its highly egalitarian distribution of income which induced free-riding and destroyed the incentive to work. In cities, because wages were controlled and set by the state at low levels, "workers pretended to work as the government pretended to pay them." Shirking their responsibilities did not have any negative consequences to workers because they could not be laid off under such a system. In rural areas, farmers were organized into production brigades and people's communes and underwent collective farming. Each farmer earned a similar number of "work points" which were the basis for a dividend to be shared at the end of the year after the production brigade sold crops to the state at the low procurement prices set by the government. Similarly, shirking was widespread as there were no negative consequences for individual farmers. As pointed out by Olson (2000), a Soviet-type economy creates an incentive for people to engage in unorganized competitive theft, and working time and work effort were the property that ordinary people had the easiest access to and stole the most of.

The existence of economic slack implies that output in the economy can be increased without any increase in the input if inefficiency can be reduced or eliminated. Lau and Zheng (2017) call this the "surplus potential output." According to their estimate, China's surplus potential output at the onset of economic reform was as much as 50% of its actual realized output in 1978. They also point out that the impact of reforms was not instantaneous because "it takes time for the prior constraints in the economy to be removed so that the economic slack can be reduced and eliminated and the surplus potential output realized." For example, the household contract responsibility system was a bottom-up reform initiated by farmers in 1978 to improve work effort by replacing collective farming with household farming. The system was officially banned by the central government in the late 1970s and was only allowed to spread to poor regions in 1980 before turning into a national policy in 1982 (Chen, 1998). Thus, the full effects of this reform were realized only in 1985.

Eliminating the Shortage Economy

Pre-reform China was, like all centrally planned economies, a shortage economy where the production of consumer goods was ignored. The priority of the central planners was to build heavy industry and especially the military kind (Kornai, 1980). The objective was to achieve a high level of industrialization with high savings and investment made possible by low and suppressed personal consumption. Within such a system, economic growth is completely detached from the improvement of living standards. While China's real GDP multiplied four times between 1954 and 1978 (Figure 1), the GDP share of personal consumption dropped from 72.5% in 1952 to 48.6% in 1978, and per capita real income and consumption had stagnated since 1957 (Chen, 1998).

The consumer goods shortage in the late 1970s was difficult for people to imagine today. Ration coupons were used to allocate food and daily necessities ranging from grain, meat, fish, cooking oil, and sugar to cloth, fuel, shoes, soaps, cigarettes, matches, and toilet paper.[9] Peanuts were available only on National Day, watermelon seeds could only be seen during the Chinese New Year, and both were subject to rationing. Consumers, even holding ration coupons, could go home empty-handed if they were not among the first in line.

At the onset of reforms in the late 1970s, Chinese leaders who had survived the Cultural Revolution acknowledged that the CCP was indebted to the Chinese people

[9]According to Wang (1981), the number of rationed retail commodities reached a maximum of 77 in Guangdong in 1976.

and that this debt should be repaid by improving their living standards. As a result, the production of consumer goods was given top priority, and resources were allocated out of national defense by reducing the size of the People's Liberation Army (PLA), cutting defense spending, and converting military plants into the production of civilian goods (Chen, 1998). These supply-side structural reforms were welcomed universally. In addition to former military plants, local governments also set up new SOEs to produce consumer goods such as washing machines, refrigerators, and television sets. Township and Village Enterprises (TVEs) took the opportunity to expand and provide employment for rural surplus labor released by household farming. Individual households also found a role to play in meeting pent-up consumption demand by supplying goods and services in niche areas. For example, an entrepreneur from Anhui's Wuhu City specializing in the production and sale of watermelon seeds quickly became a millionaire in the mid-1980s.[10]

At the time, the demand for consumer durable goods was high among urban residents who still enjoyed social welfare benefits provided by the state and had secure jobs but no attractive investment options. As a result, consumption became the largest component of final demand, which contributed to 63.7% of income growth from 1978 to 1992 (Chen, 2016). Moreover, consumption and income began to form a positive feedback loop which produced multiplier effects and generated rapid GDP growth. The State Council decided to abolish grain and cooking oil ration coupons in early 1993, signifying that China had finally bid farewell to the shortage economy. Given the size of its population and the acute consumer goods shortage experienced in the late 1970s, it is easy to see how this transformation generated an enormous growth in income.

Justifying Legitimacy by Delivering Economic Growth

China's GDP in per capita terms grew at an average of 7.7% per year from 1978 to 1992, and the fruits of this economic growth were widely shared by the population (Chen, 2016). These were achieved through market-oriented reforms that enabled Chinese people to realize productive potential and eliminate shortages in the economy. Although reformers insisted on economic development, the market-oriented reforms that helped achieve rapid economic growth and widespread improvement in living standards were still not formally sanctioned by the CCP. Reforms even suffered a serious setback after the 1989 Tiananmen Crackdown when the media kept debating

[10]See <https://www.guancha.cn/politics/2014_08_21_259078.shtml>.

on whether the market should be "surnamed socialism or capitalism," and the conservatives forcefully stressed the need to fight "peaceful evolution" by capitalist forces (Zhao, 1993).

In early 1992, Deng Xiaoping made his famous southern tour to confront the attacks on his reform policies. He declared "poverty is not socialism," arguing that "it does not matter if policies are labeled socialist or capitalist so long as they foster development." He also asserted that the CCP could survive the shocks of Tiananmen, the color revolutions of Eastern Europe, and the disintegration of the Soviet Union because it had reclaimed legitimacy by introducing reforms and improving people's living standards.[11] Deng was successful in mobilizing his political allies, including local leadership in coastal areas, and in winning public support for his reform policies (Zhao, 1993). The CCP finally announced at its 14th National Congress in late 1992 that the Chinese economy would transition from a planned economy to a socialist market one, and has since used economic growth to justify its political legitimacy in the following decades.

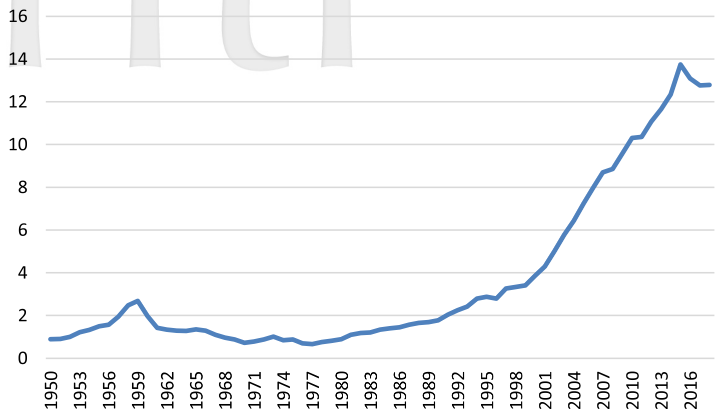
Chinese Market Socialism (1993–2012)

After the deadlock over reforms was broken at the 14th CCP National Congress in 1992, market socialism was formally carried out in a top-down fashion, both in building market infrastructure and institutions and in making important steps in establishing the labor market, reforming SOEs, and laying the foundation for financial reforms. China also made a great effort to join the World Trade Organization (WTO) which led to its full participation in the international division of labor and brought full access to international markets.

WTO Accession and Export Boom

Pre-reform China had emphasized self-reliance and adopted import substitution strategies. Its share of world merchandise exports was only 0.76% in 1978 (Figure 2). When China started adopting the opening-up policy in the early 1980s, kindred Chinese entrepreneurs living in Hong Kong, Macao, Southeast Asia, and Taiwan responded and entered the four special economic zones and 14 coastal cities that were opened for foreign direct investment (FDI) (Chen, Jefferson, & Singh, 1992).

[11] See "Key points in the speeches made in Wuchang, Shenzhen, Zhuhai, and Shanghai from 18 January to 21 February 1992" in *Selected Works of Deng Xiaoping* (X. Deng, 1994).



Source: Compiled by the author based on the data from World Trade Organization.

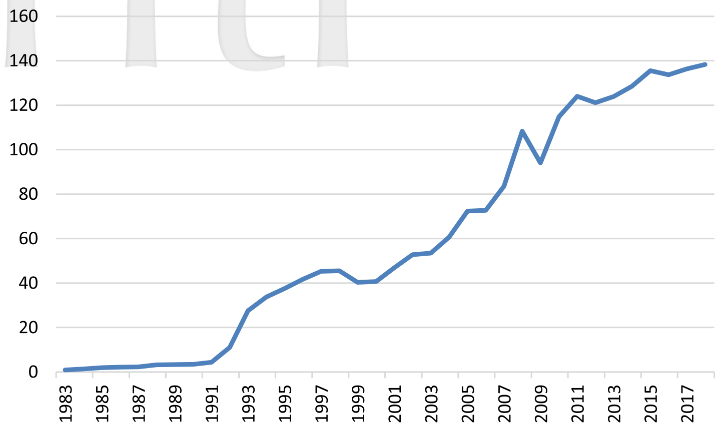
Fig. 2. China's share (%) in the world merchandise exports (1950–2018).

However, the opening-up process was slow because the reforms faced strong resistance by government agencies and SOEs which had held monopolistic power over China's foreign trade under central planning (Chen, 1998). Moreover, domestic relative prices were still very much distorted at the time, so higher export growth actually translated into bigger government budget deficits (A. Zhang & Zou, 1994). There was little evidence that comparative advantages determined the composition of China's exports in the 1980s (Lardy, 1992). China's share of world merchandise exports, although steadily increasing throughout the 1980s, remained under the historical peak attained in the pre-reform period and only began to accelerate in the 1990s (Figure 2).[12]

After China formally adopted market socialism in 1992, investors from Europe, Japan, and the US felt assured and began to move into the Chinese market. FDI surged in 1992–1997 and in 2002–2011, only being temporarily eased by the Asian Financial Crisis in 1997 and the Great Financial Crisis (GFC) in 2009 (Figure 3). In successive waves of FDI inflows, major foreign investors and multinational companies brought in technologies, knowhow, and product markets to benefit from China's comparative advantages, leading to a complete change in production management, clustering and industrial amalgamation, and supply chain allocation in China.

While China's exports increased rapidly in the 1990s, this increase was still constrained by the uncertainty surrounding the Most Favorable Nation (MFN) status

[12]China's export share reached a peak in 1959 during the height of the Great Leap Forward. The large increase in exports was likely from agricultural products such as grain, which reached a historic high of 4.2 million tons, twice the amount of 1957. See J. Yang (2013, p. 450).



Source: CEIC China Premium Database.

Fig. 3. Foreign direct investment utilized (in billion US$; 1983–2018).

in the US that had to be reviewed and decided by the US Congress annually. The situation completely changed after China's accession to the WTO in 2001. Exports grew by leaps and bounds, making China "the factory of the world." Foreign funded enterprises (FFEs) have been the major driving force of China's exports because a large part of trade has been induced by FDIs. The export and import share of FFEs reached a peak of 58.3% in 2005 and 59.7% in 2006, remaining above 40% in recent years. Foreign demand has generated rapid economic growth that has translated into increased income, employment, and higher living standards. All these would not have been possible if China had continued with its self-reliance policy and remained isolated from the world economy.

SOE Reforms

In the 1980s and early 1990s, China's reform was incremental — SOEs were financially protected when they faced serious competition from the newly introduced non-state sector players such as TVEs and FFEs. By the mid-1990s, loss-making SOEs became a huge burden to the government. A program called *zhuada fangxiao* (grasp the large, drop the small) was designed to keep only large and viable SOEs and allow smaller and loss-making ones to be closed, merged, or privatized.

Hsieh and Song (2015) study the impact of this reform program and find that the overall value-added share of SOEs in industry fell from 55% in 1998 to 34% in 2007. They also find that in the same period the state sector had reduced its value-added shares significantly, even in strategic sectors such as Communications

Equipment, Ferrous Metals, Chemicals, Petroleum Processing, and Non-ferrous Metals. The shutdown of loss-making SOEs released valuable resources which were then more gainfully employed by private firms. Lardy (2014) argues that the growing role of private firms is a major source of China's growth in the reform era because private investments have been much more efficient than investments undertaken by the SOEs.

However, the improved performance of the state sector after reforms has inspired the government to become bolder in setting its goals and strategies for SOEs.[13] In 2006, the State-owned Assets Supervision and Administration Commission (SASAC) announced its development strategies for SOEs run by the central government. Seven sectors were identified as either "the lifelines of the nation's economy" or vital to national security and identified as needing to be put under absolute state control. Although 82% of capital in these sectors was already state-owned, the government still wanted to increase its stake to become the majority shareholder or sole owner of the enterprises in these sectors. Nine sectors were regarded as "foundational pillar industries" and would remain under strong state control. The state would exert its influence to make central SOEs either the leaders or key players in these sectors. In the remaining sectors where central SOEs were present, the state would retain sufficient influence by having a controlling stake in those leading enterprises.[14] SASAC also wanted to cultivate 30–50 central SOEs and make them international competitive enterprise groups by 2010.

The strategies announced by the SASAC indicated for the first time after the SOE reform in the mid-1990s that SOEs would not be limiting their activities to just a few strategic sectors considered as vital to national security and the economy. Rather, they would assert strong influence even in sectors where the state was not previously

---

[13]The profits of the SOEs increased from about 20 billion yuan in 1998 to more than 900 billion yuan in 2005. Tong (2018) argues that the expansion of SOE profits was largely due to their monopolistic position and generous credits from the state-owned banks (SOBs). Compared to other firms, SOEs remained inefficiently managed and had a much higher proportion of loss-making firms throughout the period from 2000 to 2016.

[14]The seven sectors that would be under absolute state control are the military, power grid and power generation, petroleum and petrochemicals, telecommunication, coal, aviation, and shipping. The nine sectors that would remain under strong state control are equipment manufacturing, automobiles, information, and communications technology (electronic information), construction, steel, non-ferrous metals, chemicals, geological investigation and design, and science and technology. The remaining sectors in which the state would retain sufficient influence include trade and commerce, investment, medicine, building materials, agriculture, and mineral exploration. See <http://www.gov.cn/ztzl/2006-12/18/content_472256.htm>.

[15]Wu Jinglian pointed that this SASAC document contradicted the CCP Central Committee decision made in 1999 by enlarging the scope of SOEs to non-strategic sectors. See <http://finance.ifeng.com/news/special/dgzdwujinglian/>.

expected to intervene. The policy shift has largely escaped public notice, but its impact on the revitalization of the state sector has been significant.[15] Being in upstream heavy industrial sectors, SOEs benefited from booming investment in infrastructure, construction, and housing properties. Many central SOEs became "strategic partners" of local governments to help grow local economies. Some also started to take advantage of their easy access to credit to establish non-bank financial subsidiaries and profit from shadow banking activities since the late 2000s.

Recentralization

Recentralization was used by the government in this period not only to push for top-down reforms but also to address the problems and tensions created by spontaneous reforms and decentralization in the previous period (J. Wong & Chen, 1995).

In the 1980s, fiscal decentralization was very important in changing the balance between pro-reform and anti-reform forces within China's political system because the "central-local revenue sharing system" gave local governments a residual claimant status and incentivized them to enable market reforms to enlarge their revenue base. Local governments had an advantage because they had overseen tax collection and administration before the State Administration of Taxation (SAT) was set up in 1994. They could effectively negotiate with the center for a more favorable revenue sharing ratio and also hide revenues in firms within their localities without sharing them with the center. Funds hidden in the firms could be transferred to local governments by *ad hoc* levies (C. P. W. Wong, 1991). As a result, both the share of fiscal revenue in GDP and the central government's share in total fiscal revenue continued to decline under the revenue sharing system.

The central government became fiscally strained and was quickly losing control of fiscal resources to local governments. By the late 1980s, fiscal recentralization became the top agenda for the central government, and it was implemented in 1994 when resistance from local governments had been considerably weakened. Fiscal recentralization was accomplished by the establishment of the SAT, a significant increase in the central government's share of fiscal revenue, and a significant increase in the fiscal expenditure responsibilities of local governments. It caused a fundamental change in incentive structure—local governments were no longer the residual claimants as they were under the revenue sharing system, and their abilities to support local firms were greatly weakened (Chen, Hillman, & Gu, 2002).

The considerable decentralization in China's financial system in the 1980s created a window of opportunity for local governments to utilize funds and build up local firms such as TVEs. When banking institutions were community-based, community governments could exert influence on bank lending by acting as mediators, collateral providers, and guarantors to partially underwrite risks (Byrd & Gelb, 1990). Financial decentralization, however, created two major problems for the central government: the fragmentation of domestic markets when local governments engaged in local protectionism to favor and protect local firms; and allocative inefficiency when investment was motivated by revenue rather than profit maximization (J. Wong & Chen, 1995).

In the mid-1990s, financial recentralization was introduced. Policy banks were created, and specialized banks were turned into state-owned commercial banks. The branches of China's central bank were reorganized into regional branches similar to the Federal Reserve System in the US so as to reduce the influence from provincial governments. Moreover, state-owned banks were ordered to not incur non-performing loans, and local governments were not allowed to influence the lending decisions of commercial banks. However, financial recentralization was short-lived because it was inconsistent with the government-led growth model that was ushered in during the period of deflation between 1997 and 2002 (Chen, 2016). Under this model, local governments were tasked to guarantee economic growth for their localities and had to have access to financial resources, which meant that financial institutions had to be under tight government control. Liu and Sun (2018) give a detailed account of the ownership structure of China's financial institutions, which indicates clear state control and dominance over banks, insurance companies, security traders, trust companies, and funds and fidelities.

Recentralization, however, is no panacea. While helping to improve conformity of local governments, it also reduces their interest and responsibility and suppresses local initiatives and competition in policy innovation. Moreover, with financial centralization, independent market participants were only allowed to play a minor role in driving economic development compared to the previous period (Chen, 2016; Chen & Liu, 2015).

Simulated Capital Market

Although China's market-oriented reforms have been more comprehensive than Hungary's in the 1970s and 1980s, they still retain three important characteristics of Hungarian market socialism: investment hunger, soft budget constraints, and a simulated capital market.

According to Kornai (1990), although Hungary abolished mandatory planning after implementing market socialism, the government continued its frequent intervention in enterprises in a bid to achieve an "organic integration" of central management and market forces. Compared with the market, the government undoubtedly had a stronger influence on the career advancement of SOE managers. Thus, managers continued to have a strong drive for investment expansion as they did under central planning in an attempt to grow their enterprises and climb the bureaucratic pyramid. "Investment hunger" was substantiated by the ability of SOEs to utilize their administrative relationships and political influence and obtain approval for investment projects and funding. Excessive investment demand was hence not constrained by the enterprise's own profitability and budget, and this phenomenon was labeled by Kornai as the "soft budget constraint." Furthermore, investment hunger and soft budget constraints can only be substantiated when a government has control over capital and its distribution. Even though the government attempted to inject some features of capital markets into the system, the market remained "simulated" and banks, joint stock companies, and the stock exchange were fakes because they were still owned by the government. The capital market was "a kind of peculiar 'Monopoly' game, in which the gamblers are not kids but adult officials, who do not play with paper money but risk real state funds" (Kornai, 1990).

Similar to enterprises in Hungary, SOEs under Chinese market socialism are also in "dual dependence." Managers must cater to market needs, but the decisions of their political masters still reign supreme — they hold the decisive role in the business management environment, personal remuneration, and promotion. Thus, investment decisions are inevitably influenced by senior bureaucrats and sometimes even carried out as a political mission. More importantly, investment hunger and soft budget constraints shifted dramatically from SOEs to local governments under Chinese market socialism during and after the deflationary period between 1997 and 2002, when the central government required local governments to ensure economic growth in their localities. Since the GDP growth rate has become an important performance indicator for local government leaders, investment projects that accrue performance appraisal but do not generate acceptable economic returns and social benefits are often eagerly undertaken, and local governments do all that they possibly can to fund investment hunger — through land finance, local governmental financing vehicles (LGFVs), or various undertakings of government debt (Chen, 2016). Although the central government has strengthened its control over government debt in recent years, it has also emphasized that GDP growth is neither to be worshipped uncritically nor forsaken. Thus, the soft budget constraints of local governments continue since they are still responsible for assuring economic growth.

The central government often sends out multiple warnings and commands to local governments against carrying debt, but they clearly understand that without the guarantee of funding, "assurance of economic growth" by local governments is but empty talk. In order to accommodate soft budget constraints and investment hunger, financial resources have to be kept under government control. China's central and local governments not only own and control the majority of financial institutions, but also possess the power of appointment and removal of executives (Liu & Sun, 2018). Hence, while being more sophisticated than Hungary's, China's capital market remains "simulated."

The state-controlled financial industry has two special features. First, it creates a credit availability divide between the private and state sectors.[16] SOBs prefer to extend credits to SOEs or local governments because it is "politically correct" to do so. Furthermore, SOEs and local governments are less likely to default, and it is easier to shift the blame even when loans become non-performing. Lending to private firms would not only face higher risks but also be more scrutinized and subject to criticism or investigation when loans turn non-performing (Bai, Hsieh, & Song, 2016; Y. Deng, Morck, Wu, & Yeung, 2015). Private firms as a result must pay higher costs to seek credit from formal and mostly informal sources.

The second feature of the state-controlled financial industry was the huge allocative inefficiencies created by rigid top-down policy directives. When the central government introduced a stimulus package, SOBs were asked to immediately and substantially increase lending. They naturally gave funds to SOEs and local governments. After taking in a large amount of funds, SOE managers decided to invest in real estate, pushing the real estate prices upward (Y. Deng et al., 2015). Borrowing either directly or through LGFVs, local governments started up more large-scale infrastructure projects in regions where infrastructure was already over-invested (Bai et al., 2016; Shi & Huang, 2014). When the central government wanted to cut overcapacity and deleverage in recent years, the fault line was not between efficient firms and zombie companies but between private and state-owned firms.[17]

From 1993 to 2012, Chinese market socialism became fully developed under favorable international conditions. Unlike Hungary which suffered from inflation and massive foreign debt in the 1980s because of its heavy dependence on imported raw materials and energy resources, China's integration with the global economy was much more successful, especially after its WTO accession. However, China shares with Hungary the same fundamental inconsistencies of market socialism, relying on a

[16] See "Firms complain to Premier Li Keqiang that there exists an invisible line between SOEs and private firms when banks offer loans" <http://www.gov.cn/guowuyuan/2018-09/29/content_5326686.htm>.

[17] See, for instance, <http://finance.sina.com.cn/stock/stockzmt/2018-09-06/doc-ihiixzkm5593797.shtml>.

"simulated capital market" to substantiate investment hunger and the soft budget constraints of local governments.

Returning to Socialist Values and Ideology (Post-2005)

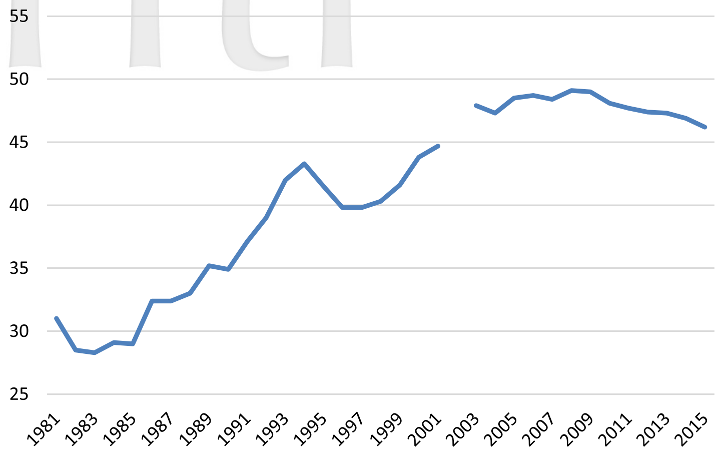
Although economic growth has been the main source of the CCP's political legitimacy, it also generates its own problems (such as income inequality, environmental degradation, and corruption), creates rising expectations, and fuels shifts in social values and political culture. According to Holbig and Gilley (2010), ideology and collective social values are another crucial source of regime legitimacy used by the CCP to frame economic growth in ways that are conducive to positive subjective perceptions of the regime.[18] Kornai (1992) also points out that a reform Communist undergoes a "moral crisis" — half his heart seeks for efficiency gains from the market while the other half binds him to traditional socialist values. He must strike a balance and intervene when the invisible hand of the capital market is unable to align with social interests. To him, public ownership provides not only direct access to resources to achieve social objectives but also an important base of political power through appointed managers of public enterprises. As long as firms are not separate from the bureaucracy, it is impossible for the government to impose self-discipline and harden budget constraints.

As high economic growth creates rising expectations and social tensions, Chinese leaders find it increasingly necessary to shift in emphasis from an earlier economic approach to a more ideological one to reclaim the CCP's right to rule.

Heightened Confidence in China's Political System

Naughton (2018) observes that the Chinese government's commitment to market-oriented reforms wavered considerably after 2005, and he attributes this to the following reasons: (1) the urgency of reform was substantially reduced after China enjoyed a period of rapid economic growth powered by both the expansion of manufacturing exports following its WTO accession and the infrastructure boom propelled by local government investments; (2) reforms made SOEs more viable and worth keeping; (3) defenders of the status quo were strengthened; and (4) the GFC in

[18]Socialist values such as social equality are deeply rooted in Chinese culture. Confucius once said "I have always heard that what worries the head of a state or the chief of a clan is not poverty but inequality. . ." See Chap. 16 in *The Complete Analects of Confucius*.



Note: Gini coefficients from 1981 to 2001 are estimated by Ravallion and Chen (2007); those from 2003 to 2015 are provided by the National Bureau of Statistics of China.
Source: From Table 1 and Figure 1 in Zhuang and Li (2016).

Fig. 4. China's Gini coefficient (1981–2015).

2008 exposed systemic risks in the capital market and made government intervention and control of the financial system more attractive.

Clearly, complacency set in when there was no urgency to reform. More importantly, however, Chinese leaders also faced increased social tensions after a long period of economic growth. The Gini coefficient grew from 34.9 in 1990 to 49.1 in 2008 (Figure 4), making China's income inequality among the highest in the world. President Hu Jintao found it necessary to stress socialist values in the "Harmonious Socialist Society" by introducing a series of redistributive measures such as abolishing the agricultural tax, establishing basic pension and health insurance for both urban and rural residents, and enacting a new labor contract law to protect the basic rights of workers. Holbig and Gilley (2010) also observe a clear shift in emphasis during Hu's presidency to a more ideological approach to reclaim the CCP's right to rule as shown by his campaign to "preserve the party's progressive nature."

After the GFC, the "China Model" or "Beijing Consensus" became more popular as many in the West became disappointed and disillusioned with capitalism. Williamson (2012) identifies "five central pillars" of the Beijing Consensus which include incremental reform, innovation and experimentation, export-led growth, state capitalism, and authoritarianism. The proponents of "authoritarian resilience" also assert that China's political system is able to enhance the state's capacity to govern effectively through institutional adaptations and policy adjustments (Brødsgaard & Zheng, 2006; Dickson, 2005; Nathan, 2003).

Together with the theory of authoritarian resilience, the Beijing Consensus heightened the confidence of Chinese leaders in China's political system. It also provided a window of opportunity for them to make a decisive shift from focusing on economic growth to re-emphasizing socialist values. Soon after taking over his position as the general secretary of the CCP and president of the state in 2013, Xi Jinping found it necessary to emphasize ideology just as Hu Jintao had. He reminded party leaders not to forget or abandon socialism and asked them to become self-confident in the theory, the path, and institutions of Chinese-style socialism. His anti-corruption campaign and emphasis on environmental protection and poverty alleviation won him wide popularity.

President Xi is bold in preserving the political legacy of former CCP Chairman Mao Zedong. He has said that although principles, policies, and practice were very different in the pre-reform (Mao era) and post-reform periods, they were not irrelevant and did not contradict one another, and one period should not be used to negate the other (Xi, 2013). In keeping with Xi's call to not negate pre-reform history, authorities in 2013 shut down the website of *Yanhuang Chunqiu*, a well-known magazine that had published many articles reflecting on the mistakes of the Great Leap Forward and the Cultural Revolution, and sacked the whole editorial team in 2016 ("In Protesting To," 2016). In the 2018 edition of the secondary school history textbook adopted by the Ministry of Education, the Cultural Revolution is no longer described as a great disaster erroneously started by Mao but as "10 years of painstaking exploration for socialism," prompting people to wonder if the CCP also intends to reverse its verdict on the Cultural Revolution (Luo, 2018).

With the help of the anti-corruption campaign, President Xi succeeded in grasping all levers of power in the party and the state to achieve a concentration of authority that is unprecedented in the last 40 years. The process of power concentration culminated in March 2018 when the National People's Congress revised the constitution to remove the two-term limit on the presidency, raising the expectation that President Xi will be staying in power for much longer than the usual limit of 10 years.

The political climate changed further after the CCP increased its control over society and the economy in both breadth and depth, emphasizing the intrinsic motivations of Communist ideology. In 2015, the CCP Central Committee issued a document which required all social entities, including private firms and non-governmental organizations (NGOs), to establish CCP organizations.[19] In 2017, President Xi

[19] See <http://www.xinhuanet.com/politics/2015-09/28/c_1116702753.htm>.

stressed at the 19th CCP National Congress that "the party must exercise leadership over all areas of endeavour in every part of the country" and "the leadership of the party is the most essential attribute of socialism with Chinese characteristics, and the greatest strength of this system." The party's omnipresence has certainly made its pressure felt by everyone, including human rights lawyers, NGO advocates, entrepreneurs, university professors, reporters, and WeChat/Weibo bloggers.[20]

The State Advances, the Private Sector Retreats

Political changes have created apprehension and fear among private sector players, leading to *guojin mintui* (國進民退, "the state advances, the private sector retreats"). In the previous period, market-oriented reforms allowed the private sector to compete in a wider range of sectors and restricted SOEs to operate in a few strategic sectors that were considered vital to the national economy. In the early 1980s when China had just emerged from the Cultural Revolution, private enterprises were simply not allowed to exist under socialism because they were considered a form of exploitation. Family businesses, however, were permitted at that time as unemployment in cities became a serious problem and family businesses helped release employment pressure for the city governments. Soon, problems arose when those businesses wanted to hire helpers. Because an argument can be found in *Das Capital* that exploitation would only occur if more than seven people were hired, all family businesses were only allowed to hire up to seven non-family members as workers (Xu, 2007). If private firms needed to expand further, they would have to wear a "red hat" and operate under the label of "Collective Ownership," and many private firms disguised themselves as TVEs in this way (Byrd & Gelb, 1990). TVEs were supported by local governments and township governments in particular, as they provided these governments with important sources of revenue. They expanded at spectacular rates in the mid-1980s and competed fiercely with SOEs to take over their market share and erode their profit margins. The development of private enterprises was further boosted in 1988 when an amendment to Art. 11 of the Constitution allowed private firms to exist and develop and to play a supplemental role under the "socialist public ownership economy." Many private enterprises expanded their investment into the manufacturing industry and competed successfully in the international market after China's WTO accession.

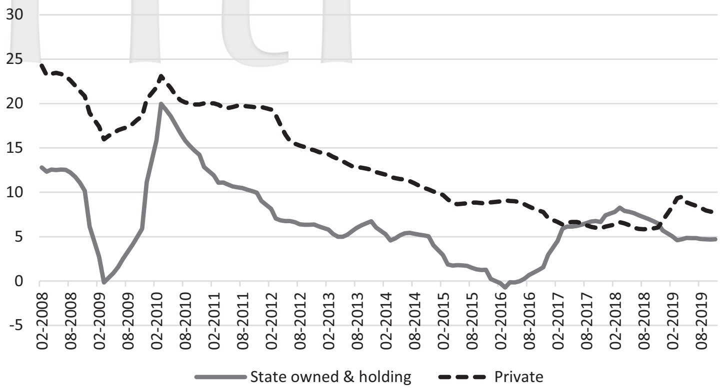
[20]See, for instance, Duggan (2015).

In recent years, the state sector has been revitalized. Private firms are, however, increasingly facing new challenges. When private entrepreneurs were implicated in corruption cases during the anti-corruption campaign, property rights were mishandled as law enforcement agencies did not try to distinguish between illegal income and the lawful property of the entrepreneurs or between the personal property of entrepreneurs and the property of their legal person enterprises. The problem has caught the attention of the Supreme People's Court, which issued a directive in early 2018 to ask local law enforcement agencies to make sure that the lawful property of entrepreneurs and their family members is not implicated when the enterprise is charged for criminal offences.[21]

Private firms also need to face a stricter enforcement of laws and regulations which translates into higher business costs. First, they must strive to comply with environmental requirements because environmental rules have been more strictly enforced in recent years. Second, the Business Tax which had been previously collected by the local tax bureau under the local government and given more leeway was replaced by the Value Added Tax (VAT) in 2016, which was more strictly enforced by the SAT. Finally, it was announced in 2018 that social security funds which had been previously collected by local social security bureaus would be collected by the SAT from January 2019.[22] Because local governments were more flexible when collecting social security funds and allowed private firms to delay payment, it is generally expected that the change will have an impact on private firms that is similar to when the Business Tax was replaced by VAT. Some local governments realized that this change would mean a loss of their disposable income because once collected by the SAT, social security funds would be subject to sharing between central and local governments. They quickly began to collect arrears to social security funds, creating panic among the business firms.[23] In order to avoid a sudden surge of business costs to private firms, the State Council had to issue an order strictly forbidding local governments from collecting arrears.[24]

On top of all these new challenges, private firms have also been finding it increasingly difficult to get credit in recent years. As mentioned before, there is a credit availability divide between the private and state sectors under China's financial system, which is heavily controlled by the government. As a result, private firms receive credit largely from shadow banks. In a concerted effort to deleverage, the People's Bank of China (PBOC) and the China Banking Regulatory Commission have imposed

[21]See <http://finance.sina.com.cn/china/gncj/2018-01-02/doc-ifyqefvx1910360.shtml>.
[22]See <http://www.chinanews.com/cj/2018/07-21/8574603.shtml>.
[23]See "Shebao Jiaolu," *China News Week*, September 24, 2018.
[24]See <http://finance.people.com.cn/n1/2018/0919/c1004-30302097.html>.



Note: Three-month centered moving average of the year-on-year growth rates.
Source: CEIC China Premium Database.

Fig. 5. Growth rates of industrial value added by state and private firms (2008–2019).

strict controls on shadow banking activities since 2017, effectively drying up the main source of funds for private firms.

The increased political risks, upsurges in costs of regulatory compliance, and the drying up of credit have come together as a perfect storm for private firms. The share of bank loans to private firms dropped to 13.9% in 2016 from 57% in 2013, while the share to SOEs climbed to 83.3% from 35.1% during the same period. Private sector investment has seen its lowest growth in recent years, and its share in total investment has dropped from a peak of 65% in 2014 to 60% in 2017. The growth rate of industrial value added of state-owned and state-controlled firms began to accelerate in late 2016 and surpassed that of private firms in August 2017, while the growth rate of industrial value added of private firms continued to decrease since 2012 (Figure 5).[25] The perception of *guojin mintui* was further confirmed when reports came in recently that many private entrepreneurs had to sell the shares of their companies to SOEs in order to avoid bankruptcy.[26] As the private sector contributes to more than 60% of China's GDP and more than 80% of its employment, the government could not afford to let the situation deteriorate further. In late 2018, President Xi personally held a meeting with more than 50 private entrepreneurs to reassure them that the party's policies to encourage and support the development of the non-state sector have not changed and that

[25]See Ding (2018).
[26]See <https://wallstreetcn.com/articles/3409805>.
[27]See <http://www.xinhuanet.com/politics/2018-11/01/c_1123649488.htm>.

the party regards private enterprises and private entrepreneurs as one of their own (*zijiren*).[27]

Under market socialism, market forces are supposed to be combined with government intervention to deliver the best outcome. However, as pointed out by Kornai (1992), the proportion of bureaucratic versus market coordination cannot be arbitrarily changed — once bureaucratic intervention exceeds a critical mass, it will destroy the market's vitality. As the case of *guojin mintui* attests, the government is made up of tens of thousands of bureaucrats who decide the extent of governmental interference in various industries and regions based on not only government directives but also their personal interests and preferences. Even loan officers in state-owned financial institutions can exercise interference. Changes in the political climate can thus alter their preferences and create a very different market environment. It is clear that China's market reform process could suffer a serious setback if the preference of fewer markets and more socialism persists.

Conclusion

A number of conclusions can be drawn from this study. First, China had used economic growth to justify the CCP's legitimacy in the early decades of the reform era. By focusing on economic development while downplaying ideology, China was able to remove key institutional barriers to establish the goods and services market and the labor market, thereby releasing pent-up energies to allow for rapid economic growth over the last 40 years. China's economy has also successfully integrated with the global economy under favorable international conditions, especially after its WTO accession. However, reforms are half-baked since they have not made significant progress in building the capital market, which is the most essential mechanism to allocate productive resources in any well-functioning market system.

Second, similar to the Hungarian experience, China's market-oriented reform contains internal inconsistencies inherited from market socialism in which a "simulated capital market" under the heavy control of government is used to substantiate "investment hunger" and the "soft budget constraints" of local governments. If the capital market were allowed to play a bigger role in the allocation of financial resources, China would have enormous gains from allocative efficiency, and succeed in the structural adjustment of its economy. However, hardening budget constraints and financial discipline are impossible under the boundaries set by market socialism because public-owned financial institutions must dominate the financial sector in order to help achieve government objectives that are often ignored by the invisible hand of the market.

Third, as high economic growth has created rising expectations and social tensions in recent decades, Chinese leaders have found it necessary to shift in emphasis from an earlier economic approach to a more ideological one in order to reclaim the CCP's legitimacy. Hu Jintao launched a campaign to "preserve the party's progressive nature," using redistributive measures to ease social tensions. By reviving Mao-style political campaigns to ensure obedience among the party officials, Xi Jinping has been more decisive in making the shift to relying on socialist values and ideology to preserve the CCP's political legitimacy. This shift, however, has significantly altered the preferences of government officials and the expectations of private sector players while completely changing market conditions and future prospects for China's market-oriented reform process.

Those conclusions imply that Chinese market socialism is facing a dilemma. There is no doubt that the government desires market forces and private firms to help sustain economic growth, which is important in maintaining social stability, especially when China has been facing deglobalization and a trade war with the US in recent years. However, this would require China to go beyond the limits of market socialism. Moreover, economic growth as a power to boost party legitimacy has essentially been exhausted, and the leadership seems to believe that the party would gain more political traction by focusing on socialist values and ideology. However, as attested by development in the private sector in recent years, changes in the political climate can trigger an unorganized collective action among government officials and unleash massive government interventions that destroy the market's vitality.

References

Bai, C.-E., Hsieh, C.-T., & Song, Z. M. (2016). *The long shadow of China's fiscal expansion* (NBER Working Paper No. 22801). Retrieved from https://www.brookings.edu/wp-content/uploads/2017/02/baitextfall16bpea.pdf.

Brødsgaard, K. E., & Zheng, Y. (2006). Introduction: Whither the Chinese Communist Party? In K. E. Brødsgaard & Y. Zheng (Eds.), *The Chinese Communist Party in reform* (pp. 1–14). New York, NY: Routledge.

Byrd, W. A., & Gelb, A. (1990). Why industrialized? The incentives for rural community governments. In W. A. Byrd & Q. Lin (Eds.), *China's rural industry: Structure, development, and reform* (pp. 338–358). New York, NY: Oxford University Press.

Chen, K. (1998). Accidental freedom: Economic development experience in post-Mao China. In K. T. Liou (Ed.), *Handbook of economic development* (pp. 611–630). New York, NY: Marcel Dekker.

Chen, K. (2016). Two China models and local government entrepreneurship. *China: An International Journal*, *14*(3), 16–28.

Chen, K., Hillman, A. L., & Gu, Q. (2002). From the helping hand to the grabbing hand: Fiscal federalism and corruption in China. In J. Wong & D. Lu (Eds.), *China's economy into the new century: Structural issues and problems* (pp. 193–215). Singapore: Singapore University Press and World Scientific.

Chen, K., Jefferson, G. H., & Singh, I. (1992). Lessons from China's economic reform. *Journal of Comparative Economics*, *16*, 201–225.

Chen, K., & Liu, Q. (2015). Economic development and corruption in China in the shadow of rent seeking. In R. D. Congleton & A. L. Hillman (Eds.), *Companion to the political economy of rent seeking* (pp. 395–409). Cheltenham, UK: Edward Elgar.

Deng, X. (1994). *Selected works of Deng Xiaoping* (Vol. 3). Beijing, China: Foreign Languages Press.

Deng, X. (1995). *Selected works of Deng Xiaoping* (Vol. 2). Beijing, China: Foreign Languages Press.

Deng, Y., Morck, R., Wu, J., & Yeung, B. (2015). China's pseudo-monetary policy. *Review of Finance*, *19*, 55–93.

Dickson, B. (2005, November). *Populist authoritarianism: The future of the Chinese Communist Party*. Paper presented at the Conference on Chinese Leadership, Politics, and Policy, Washington, DC. Retrieved from Carnegie Endowment for International Peace website: https://carnegieendowment.org/files/Dickson.pdf.

Ding, A. (2018, September 6). The decline of China's private sector. *New Fortune*. Retrieved from http://www.xcf.cn/yc/201809/t20180906_783666.htm.

Dittmer, L. (2017). Xi Jinping's "new normal": Quo vadis? *Journal of Chinese Political Science*, *22*, 429–446.

Duggan, J. (2015, July 13). China targets lawyers in new human rights crackdown. *The Guardian*. Retrieved from https://www.theguardian.com/world/2015/jul/13/china-targets-lawyers-in-new-human-rights-crackdown.

Holbig, H., & Gilley, B. (2010). Reclaiming legitimacy in China. *Politics & Policy*, *38*(3), 395–422.

Hsieh, C.-T., & Song, Z. M. (2015). *Grasp the large, let go of the small: The transformation of the state sector in China* (NBER Working Paper No. 21006). Retrieved from https://www.nber.org/papers/w21006.pdf.

In protesting to forced reorganization of the editorial board, Yanhuang Chunqiu announced its shutdown. (2016, July 19). *BBC*. Retrieved from https://www.bbc.com/zhongwen/simp/china/2016/07/160719_yanhuangchunqiu_shut_down.

Kornai, J. (1980). *Economics of shortage*. Amsterdam, The Netherlands: North-Holland.

Kornai, J. (1990). *The road to a free economy: Shifting from a socialist system — The example of Hungary*. New York, NY: Norton.

Kornai, J. (1992). *The socialist system: The political economy of communism*. Princeton, NJ: Princeton University Press.

Lardy, N. R. (1992). *Foreign trade and economic reform in China, 1978–1990*. Cambridge, UK: Cambridge University Press.

Lardy, N. R. (2014). *Market over Mao: The rise of private business in China*. Washington, DC: Peterson Institute for International Economics.

Lau, L. J., & Zheng, H. (2017). How much slack was there in the Chinese economy prior to its economic reform of 1978? *China Economic Review*, *45*, 124–142.

Lin, J. Y. (2011). *Demystifying the Chinese economy*. Cambridge, UK: Cambridge University Press.

Liu, S., & Sun, H. (2018, August 7). *Who controls China's financial system?* Retrieved from Jinrong Jianguan Yanjiuyuan (Institute of Financial Supervision) website: http://www.gzhshoulu.wang/article/3717871.

Luo, S. (2018, March 14). Xi Jinping wants to reverse the verdict on the Cultural Revolution? *The New York Times (Chinese Edition)*. Retrieved from https://cn.nytimes.com/china/20180314/song-yongyi-china-textbook/.

Nathan, A. J. (2003). Authoritarian resilience. *Journal of Democracy*, *14*(1), 6–17.

Naughton, B. (1988). The Third Front: Defense industrialization in post-Mao China. *China Quarterly*, *115*, 351–386.

Naughton, B. (2018). *The Chinese economy: Adaptation and growth*. Cambridge, MA: The MIT Press.

Olson, M. (2000). *Power and prosperity: Outgrowing communist and capitalist dictatorships*. New York, NY: Basic Books.

Ravallion, M., & Chen, S. (2007). China's (uneven) progress against poverty. *Journal of Development Economics*, *82*(1), 1–42.

Shi, H., & Huang, S. (2014). How much infrastructure is too much? A new approach and evidence from China. *World Development*, *56*, 272–286.

Shirk, S. L. (1993). *The political logic of economic reform in China*. Berkeley, CA: University of California Press.

Tian, G. (2011). *China's economy at the crossroads*. Retrieved from http://iar.shufe.edu.cn/iar/centerxs_con/271/4703.

Tong, S. Y. (2018). China's new push to reform the state sector: Progress and drawbacks. *China: An International Journal*, *16*(3), 35–51.

Wang, Q. (1981). *Assure a good turn in market condition* [*Jinrong Yanjiu* (Finance Research) Supplement No. 1, 32].

Williamson, J. (2012). Is the "Beijing Consensus" now dominant? *Asia Policy*, *13*, 1–16.

Wong, C. P. W. (1991). Central-local relations in an era of fiscal decline: The paradox of fiscal decentralization in post-Mao China. *The China Quarterly*, *128*, 691–715.

Wong, J., & Chen, K. (1995). The evolving role of government in China's transition economy. *Asia Pacific Business Review*, *1*(3), 113–131.

Wu, J. (2008). *Standstill and regression could get China nowhere*. Retrieved from http://politics.people.com.cn/GB/8198/71979/71980/7066624.html.

Xi, J. (2013, January 5). A few issues on upholding and developing socialism with Chinese characteristics. *Xinhuanet*. Retrieved from http://www.xinhuanet.com/2019-03/31/c_1124307481.htm.

Xu, Q. (2007, April 30). How was the private sector economy permitted to be born? *SINA*. Retrieved from http://finance.sina.com.cn/economist/xuezhesuibi/20070430/12543560705.shtml.

Yang, J. (2013). *Tombstone: The untold story of Mao's Great Famine*. London, UK: Penguin Books.

Yang, W. (2018, September 16). My eight reform proposals. *SINA*. Retrieved from http://finance.sina.com.cn/meeting/2018-09-16/doc-ifxeuwwr4909192.shtml.

Zhang, A., & Zou, G. (1994). Foreign trade decentralization and its impact on central-local relations. In H. Jia & Z. Lin (Eds.), *Changing central-local relations in China: Reform and state capacity* (pp. 153–177). Boulder, CO: Westview Press.

Zhang, W. (2012). *China's road to market*. Hangzhou, China: Zhejiang University Press.

Zhao, S. (1993). Deng Xiaoping's southern tour: Elite politics in post-Tiananmen China. *Asian Survey*, *33*(8), 739–756.

Zhuang, J., & Li, S. (2016). *Understanding recent trends in income inequality in the People's Republic of China* (ADB Economics Working Paper Series No. 489). Retrieved from https://www.adb.org/sites/default/files/publication/186143/ewp-489.pdf.