Growing Pains: Tensions and Opportunity in China's Transformation

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Preface

By now it is well recognized that China's great transformation in the past three decades is one of the epic episodes in contemporary world history, with far-reaching impacts that will be felt for years to come. The changes are widespread and profound, reshaping the country's socioeconomic and political landscapes. But they are also multifaceted, transient, and—often—conflicting. How do we interpret the state of reform in China? What challenges does China face? How might changes in China—both those that are underway and those that are on the horizon—play out in the months and years ahead?

To address these and related issues, the Stanford China Program (SCP) at the Walter H. Shorenstein Asia-Pacific Research Center (Shorenstein APARC) invited leading scholars from the United States, China, and Great Britain to a conference held at Stanford University, November 1–3, 2008. We used this occasion to celebrate the SCP's launch and to provide a public venue to discuss some of the key challenges to China's reforms. The SCP also held a well-attended public session on November 1 at Stanford's Bechtel Conference Center, which included a panel discussion by Scott Rozelle, Leonard Ortolano, and Melanie Manion, moderated by Andrew Walder. Detailed discussion of the papers took place at the workshop during the ensuing two days. This volume is the result of that conference and the papers, now considerably revised, presented there.

As we planned for the conference and subsequently prepared this book for publication, we repeatedly returned to the theme of a China in transition. Along with spectacular economic growth and societal changes, China has been experiencing extensive tensions, dislocations, and multifarious changes that are not always in sync with one another. We sensed that these are part of the "growing pains" that Chinese society must confront as it gradually transforms itself. Thus, "Growing Pains: Changes and Challenges in China's Transformation" became the theme of the conference and of the volume that resulted.

In addition to those who contributed to this book, several scholars—Jennifer Adams, Hongbin Li, Ching Kkwan Lee, Liu Yaling, and Melanie Manion—participated in the conference and presented their work. We thank them for their contributions to the event and for their commentary during the proceedings. We also acknowledge our doctoral student rapporteurs, Chris Chan and Xiaojun Li, for a masterful job taking notes on the conference.

The SCP at Shorenstein APARC and the Center for East Asian Studies cosponsored the conference. We thank Shorenstein APARC for hosting the event, providing both facilities and staffing. Professor Gi-Wook Shin, the Center director, supported our efforts fully and gave opening remarks at the gathering. Daniel Sneider, the associate director for research at Shorenstein APARC, was a driving force in initiating the conference and the ensuing book, and helped us at many stages of the process. The staff members of the Center, especially Neeley Main and Denise Chu, ably assisted in handling conference logistics. Michael Armacost, our colleague at Shorenstein APARC and the editor of the Brookings Institution Press series of which this book is a part, kindly handled review of the manuscript. Victoria Tomkinson, Shorenstein APARC's publications manager, did a superb editorial job on the chapters to create this volume, with additional copyediting and indexing help from Fayre Makeig and Diane Brenner.

Xueguang Zhou, Jean C. Oi, and Scott Rozelle

Introduction

Irresolvable Contradictions or Growing Pains? Perspectives on China's Challenges

Andrew G. Walder

There is often a metaphysical quality to contemporary discussions of China's reforms. Such commentaries usually boil down to generalizations, which allegedly reflect either established theories or the conclusions of past research. Analysis then proceeds with certain abstract claims about the essential nature of a planned economy and a Leninist political system, which contrast with similarly abstract claims about the essential nature of a competitive market economy or a multiparty political system. These abstract features, each with its own separate "logic," are seen to be in conflict, and they generate contradictions that are inherently irresolvable. Accordingly, problems that arise in the course of China's economic transformation are interpreted as expressions of these logical contradictions; they are "tensions" inevitably created by the task of holding together a single-party dictatorship, even as its traditional foundations in a planned economy are washed away.

When serious policy challenges confront China's leaders in the course of their reforms, this kind of abstract analysis tends to interpret problems as potential crises. Because the problems embody logical contradictions in the Chinese Communist Party's (CCP's) strategy of gradual market reform under a single party dictatorship, they threaten the entire reform strategy. And because they express contradictions that are fundamental, there is no easy way out. Even short-term fixes, if they can be found, only delay the inevitable showdown. China's leaders are trapped within the political limits that they place on the reform process, making it much more difficult to move forward than would otherwise be the case.

Analysts of China's reforms have offered several different versions of this type of thinking over the past three decades. At first, there was deep skepticism about the ability of a Leninist dictatorship to even embark on fundamental market reform. The past history of limited reform in Hungary and the Soviet Union was a case in point. When China began its own reforms, many commentators were certain that its leaders would balk at implementing the changes needed to free the economy from the shackles of central planning. To do so was impossible, the thinking went, because such change would threaten the leaders' political power. However, as it became obvious that China's leaders did indeed possess the political will to proceed with reforms far beyond what was ever observed under other Communist regimes, the argument shifted. Now, analysts claimed, a Leninist political system could try to reform, but the reforms could not be successful. A Leninist system must, by nature, control economic decisions and resources; officials would therefore intervene excessively, and the economy would languish. Simply put, it was widely assumed that gradual reform under Communist-party rule was bound to stall. And if it did not, a single-party dictatorship in an emerging market economy would be unable to constrain its officials from becoming corrupt predators, choking off economic growth.[1]

As China's economy took off in the late 1980s and early 1990s, yet another version of this argument appeared. It was now conceded that China's reforms had reaped early successes by beginning with the easy tasks: shifting to household agriculture and permitting family businesses and small village enterprises to flourish. But such a strategy only postponed the far more difficult task of reforming the grossly inefficient state sector, which required laying off tens of millions of urban workers who expected lifetime employment. Surely the CCP, mindful of the role Solidarity played in the downfall of Polish Communism, would not dare to touch this sacred cow. If it did so, the inevitable wave of protests would surely imperil the regime.[2]

After the mid-1990s, China's leaders once again defied predictions by restructuring and downsizing the country's urban state firms with a vengeance, radically reducing state employment, and either closing or privatizing most small- and medium-sized enterprises. This much smaller state sector—after restructuring, downsizing, partial privatization, and other policy changes—was transformed from an unprofitable and backward mass of enterprises to a smaller group of more competitive and increasingly profitable corporations that began to make an impact on world markets.[3]

Today, outdated modes of analyzing China's reforms are still with us, even though, for several decades, the country has overcome reputedly insurmountable contradictions and avoided the inevitable crises that these steps were supposed to create. Now, we are sometimes told, China's reforms have *finally* reached a cul-de-sac. They cannot move forward any further. Is this really the case?

To be sure, China faces serious problems. These include the rising levels of protest that have accompanied the country's wrenching structural changes, intensifying corruption that some observers claim has turned the Chinese government into a "predatory state," the inability or unwillingness of co-opted private businessmen to push for democratic change, and the continuing lack of legal reform and abuse of individual rights. Collectively, such obstacles seem to present us with a China that is in a so-called trapped transition. Corruption and arbitrary rule, it is said, will come to threaten economic prosperity, while the impetus toward the democratic reforms essential for any lasting solution has been lost. Try as it might, China cannot escape the inherently logical contradiction of moving to a market economy within the framework of single-party rule. In the end, China's transition remains trapped by the fundamental contradictions between market liberalization and single-party dictatorship.[4]

There is nothing inherently wrong with having a broad conceptual framework within which to interpret China's path of reform. But there are problems with a perspective that, seemingly by default, interprets serious policy problems as irresolvable logical contradictions that threaten to derail or stall the entire reform process. Metaphysical assumptions have a consistently poor record of predicting either the policies pursued by China's leaders or their level of success or failure. Perhaps the logical contradictions that so many observers claim to see are between abstract concepts that exist primarily on paper and the more complex empirical reality of Chinese political and economic institutions. Serious policy dilemmas are not necessarily symptoms of irresolvable systemic contradictions. They may be nothing more than difficult policy problems for which solutions may or may not be found.

This volume seeks to push for a more analytic and empirical focus on the serious challenges facing China's reforms, and to develop a set of claims that are based less on metaphysics and more on sustained research and evidence. Some of the widely discussed problems that are thought to threaten China's reforms are in fact not as serious as many interpreters claim—and some have already been solved. Some widely noted problems truly are serious, and still others may loom on the horizon. The authors of this volume have all been asked to look at crucial problem areas in China's reforms, to examine the evidence of the problems' actual severity, and to assess the likelihood of near-term solutions. We seek to present a view that is not more or less optimistic than that commonly derived from metaphysical frameworks; we aim instead to develop a more *accurate* perspective. Which widely noted problems that plague China's reforms are in fact serious, or will become more serious with time? Which are less serious or will become less serious with time? And which are well on the way to being solved—or have already been solved—unbeknownst to many commentators?

Privatization and Marketization

The first section of this book contains four chapters on privatization and the creation of competitive markets. The first chapter, by Jean C. Oi, analyzes political constraints on the restructuring of state enterprises, and the methods by which these enterprises were steadily downsized and converted to other ownership forms between 1995 and 2005. Such downsizing and conversion were once viewed as the most irreconcilable contradiction in China's entire reform program. Chinese leaders, it was thought, could not possibly gather the political will to downsize the massive state sector. Even if they did so, it was a virtually impossible task, widely believed to be an intractable and insurmountable problem, both politically and economically. In 1998 the state sector was still bloated and inefficient, employing 122 million and losing money. But by 2006 the sector had been downsized to employ 76 million, and the number of firms still owned and controlled by the state had been reduced by two-thirds. Most notably, this reduced and reorganized sector was beginning to turn a profit.[5]

Oi begins by trying to reconcile two starkly different views about state enterprise reform. On the one hand, some observers have criticized reformers for being too slow and hesitant, avoiding the most difficult phases and delaying the inevitable, to the detriment of the program as a whole. On the other hand, many have argued that, once the reform process was underway, reformers moved too fast, laid off too many workers, and permitted managers to strip state assets. Oi shows how these conflicting views imposed political constraints—leaders felt impelled to push reforms through but simultaneously sought to avoid the political and social backlash that might imperil the entire process.

One particular kind of reform—corporate restructuring—was phased in gradually and deliberately, precisely to avoid these political problems. It took different forms, and the process was primarily pushed forward by the state itself. The least disruptive reforms were introduced first, and only later were the more challenging forms of privatization implemented. In the 1990s, privatization and bankruptcy were limited, while conversion to shareholding companies was relatively common. In the next decade, privatization and plant closures increased. The impact on workers was initially kept to a minimum. Before 2000 the majority of state-owned firms that restructured made every effort to keep all of their workers; those that did lay off workers had to pay sufficient compensation packages to resettle those who had lost their jobs. After 2000, however, firms were no longer required to keep all or even most of their employees and layoffs became much more common. Initially, and only rarely, managers obtained controlling shares of restructured firms, but this practice changed over time. A survey that Oi conducted in 2000 showed that slightly more that 4 percent of managers were the controlling shareholder, but by 2004 managers controlled more than half the restructured firms in her sample.

Overall, Oi describes a cautious process of restructuring and downsizing that was outwardly modest. Reformers eschewed the politically charged term *privatization* in favor of neutral terms, such as *shareholder cooperatives* and *joint stock companies*. But once these reforms were begun, they were carried out steadily. Thousands of China's state-owned enterprises (SOEs) have disappeared—some were closed down in bankruptcies, but the majority have been sold, converted to other ownership forms, or merged into larger new state-owned corporations, some of which are listed on stock markets. As of this writing, only 153 state-owned corporations are under the central government's control. Some of them have become very profitable in recent years and are even beginning to compete on world markets. The reform of the state-owned sector is by no means complete, but it is hard to avoid the conclusion that a problem that once seemed insurmountable has been reduced to manageable proportions.

The remaining three chapters in the first section describe how the state has withdrawn from an active role in allocating labor, food, and land. In chapter 2, Albert Park, Fang Cai, and Yang Du address three debates involving employment and labor markets. The first debate concerns the severity of the unemployment that the radical downsizing of the state industrial sector has created in Chinese cities. In recent years, they note, many have argued that unemployment has reached crisis levels, and that jobs are scarce for former state-sector workers, rural laborers from the interior, and even recent college graduates. Others, they note, have claimed that unemployment is actually relatively low and job creation robust. Marshaling an array of recent survey data, Park et al. show that while reemployment can be difficult for certain segments of the laid-off urban workforce, urban unemployment is modest by internationally accepted definitions, and has been falling in recent years. Job creation overall is healthy, and labor markets appear to be working. Future job creation will remain a challenge, and will depend on continued robust economic growth.

Park et al. also discuss a second debate: whether recently reported labor shortages and rising wages for unskilled workers in southern China and elsewhere are temporary phenomena that will subside when more workers arrive from the countryside, or whether China has reached a turning point where surplus labor is exhausted and real wages begin to rise. Park et al. find that rural wages are increasing and that many of the prime age cohorts (from 20 to 40) have high levels of off-farm employment, indicating that such employment is widely available, even for women. Some of the toughest remaining problems come from the demand rather than the supply side, and threaten industries that rely heavily on low-wage labor. However, Park et al. counter that labor productivity has so far risen even faster than wages, which means that off-farm industries have so far been able to compensate for rising labor costs. Somewhat ironically, the real challenge will come in future decades, when the size of age cohorts entering the labor force will drop dramatically and China will face a labor shortage.

Finally, Park et al. consider a third issue. Can China provide adequate social insurance for workers who are increasingly exposed to the risks and uncertainties of the market, as well as other unforeseen events such as illness? Here the authors find much less cause for optimism. The current social security system is broken, and currently proposed solutions are ambitious but suffer from obvious shortcomings. In sum, China is generating sufficient jobs to employ its workers, and is mobilizing enough labor-force entrants to remain internationally competitive. Even so, China has yet to establish the social insurance programs required to maintain a healthy, functioning labor market and to ensure adequate protections for its citizens' welfare. Increases in labor productivity and a shift toward production of higher-value-added items must continue, Park et al. find, if China is to enjoy improved living standards and remain globally competitive. Both are also necessary for China to be able to finance a well-functioning social insurance system in the future.

In chapter 3, Scott Rozelle and Jikun Huang look at efforts to create integrated, efficient, and competitive markets for agricultural commodities. They describe how reform policies have shifted between periods of liberalization and retrenchment over the past three decades, creating not only a great deal of confusion about the subject but also a widely held perception that China's agricultural policies remain highly restrictive. Rozelle and Huang argue that in fact there is now very little government interference in the operation of China's domestic or international markets, especially compared to the rest of the world. They point out, for example, that the state procurement system no longer exists, almost all output is procured and produced by private firms, almost all inputs are likewise marketed by private firms, there are millions of trading firms with few regulatory barriers, there are almost no cross-province barriers, and China's international tariff schedules are among the lowest in the world (less restrictive than Japan or Europe).

According to the authors, this surprising record of deregulation has created remarkably well-integrated, efficient, and competitive agricultural markets, which have demonstrably positive effects on the sector's general efficiency, productivity, and equity. As a result, in a country where there are ten million or more largely small traders buying from and selling to nearly two hundred million agricultural producers, competition drives traders to seek farmers who have the lowest production costs. This means that traders will go to remote and poor locations to procure crops and that poorer farmers are drawn into production for expanding and lucrative markets for agricultural products. Given this scenario, Rozelle and Huang assert that China's next challenge will be the likely temptation to return to greater regulation in the face of inflation or other policy imperatives. Moreover, the vast amalgam of small trading networks and informal marketing channels that produce current high levels of integration and efficiency also makes it more difficult to create institutions that can ensure food safety.

Another challenge that rural markets face is the issue of property rights over agricultural land. Linxiu Zhang, Songqing Jin, Scott Rozelle, Klaus Deininger, and Jikun Huang address this key issue in chapter 4. On the one hand, managing China's cultivated land has been a major success. With free labor and commodity markets, the key resource of farmland needs to be flexibly allocated to permit farmers to respond to new opportunities. Over the past three decades, the restrictions against land rentals have fallen sharply. In the 1980s, less than 2 percent of China's cultivated land was rented, but by the current decade the figure was above 10 percent. In Zhejiang Province, which enjoys the highest level of rural income, nearly 30 percent of cultivated land is now rented—a level comparable to market economies like the United States.

Zhang and her coauthors also assess the market traits, institutional features, and other entry barriers that either facilitate or prevent cultivated land markets from operating properly. They find that households with limited endowments of land and capital *can* gain access to land through rental markets, whereas those with higher levels of capital but lower ability and land endowment tend to establish nonfarm enterprises. Higher levels of out-migration also increase the number of land transactions, suggesting that rural farm and nonfarm development are linked by a positive feedback loop. In short, rental markets for cultivated land promote both efficiency and equity.

However, Zhang and her coauthors point out major remaining challenges in the security of land tenure. China has made little progress in shifting from a system based on collective ownership to one that provides enforceable rights. This lack of progress is not inadvertent: until very recently, it was not politically feasible to begin a debate about how to move to a system of private property rights over agricultural land. The authors do not believe that such a change will present a problem in the immediate future, and they admit that knowledge is meager about the costs of the current land-tenure system. Nevertheless, many believe that the move toward private property in land would be useful in the long run—both to help farmers finance their moves to the city as China urbanizes and to enable the country to insure itself against catastrophic illnesses and other large expenditures. Until recently this was not even open for discussion. The current policy keeps many rural families tied to the land, preventing them from moving to the cities, and it has associated costs that will rise as urbanization and industrialization proceed.

Overall, the chapters in this section outline changes that have been remarkably thorough and in many respects surprisingly successful. The downsizing and restructuring of the massive state sector—once dubbed a virtually impossible task—has been largely completed, in a cautious but steady manner. Moreover, restructuring has occurred without the catastrophic collapse of employment and welfare that most transitional economies in post-Communist regimes initially experienced. Relatively unregulated and robust markets for labor and agricultural commodities have finally emerged, and despite remaining restrictions on the privatization of land, land-rental markets that allow farmers a flexible response to market opportunities have emerged.

Major challenges still loom, of course, and many of them will require the state to play a heightened role: the creation of national welfare and national food safety systems, and the establishment of private property rights in land. There has been little progress in these areas, but none of these remaining problems expresses irreconcilable contradictions in China's chosen path of reform. These are challenges of economic development and institution building—growing pains that are by no means characteristic of only reforming socialist economies.

Governance

The second section of the book contains four chapters that address problems of governance. In chapter 5, Andrew Wedeman tackles the general issue of corruption, and in particular recent claims that corruption has intensified in China to the point that it threatens the integrity of the government and the future of the reform program. Wedeman emphasizes that while China suffers from widely recognized problems of official corruption, it does not rank as one of the most corrupt countries in the world. In 2006 it ranked near the middle of international indices of corruption, and the World Bank's governance index also places China near the middle of the pack. Wedeman argues that corruption clearly spread in the 1980s and intensified in the 1990s as market reforms proceeded, evidently a problem caused by reforming a socialist planned economy in a piecemeal fashion. He points out that many of the institutions for monitoring and dealing with corruption either had to be resurrected or constructed from scratch after the Cultural Revolution. However, the regime began rebuilding its monitoring capacity, launching several major anticorruption campaigns, and has poured resources into the effort almost continuously. Wedeman adds that it is hard to judge the overall effectiveness of these actions. The numbers that various authors cite as evidence of ineffective enforcement, he notes, are often incomplete and difficult to decipher. Despite the use of tactics and sentencing practices that are more draconian than in countries such as the United States, the most reasonable conclusion from available evidence is that China's anticorruption efforts have reached something of a stalemate. Corruption is a continuing challenge to the regime, but it is not an inherently irresolvable problem, nor are there grounds for concluding that it has intensified to crisis proportions. In short, the jury is still out.

In her chapter on village elections, Lily L. Tsai provides a national overview of the progress of implementing village elections—a phenomenon that has garnered considerable attention in recent years, though assessments have varied greatly. How common are these elections nationwide? Are they limited to a few model localities, or have they been deeply implemented? How effective have village elections been in ensuring regular turnover of officials in response to voter preferences? How competitive have these elections been, and have they been conducted fairly? How do rural residents view the elections?

In Tsai's view, her data justify "cautious optimism." Village elections have spread gradually over the fifteen years, but they are now widespread. The number of villages with elected rather than appointed leaders has increased considerably, and progressively larger percentages of villages have held elections with more than one candidate. The vast majority of villages have implemented the election procedures required by the revised Organic Law, and some villages have implemented additional election institutions such as fixed polling stations, which the law does not require. As a result, the turnover of village leaders has become more formalized and standardized. Instead of removing and installing village leaders at will, more and more township governments are constrained by the formal election process. Fewer village leaders are removed in the middle of an election term. Today, more village leaders leave office because they run for reelection and fail to get reelected, or because they finish their term and make a deliberate decision not to run again. Tsai sees this as a sign that village elections are becoming institutionalized. The period of the highest incidence of resignation or firing, which she interprets as an indication of higher-level intervention, was in the mid-1990s. Since then, better election implementation has apparently made citizens more interested and engaged in the election process. Villages in which election procedures are well run are more likely to have villagers who report that elections are "lively" and that people are excited about them.

At the same time, critical weak spots remain. Few villages have regulated proxy voting, which can easily be manipulated by individuals who vote on behalf of absent family members or pressure them to vote in certain ways. Even though most villages report that the upper levels do not interfere actively when villagers nominate candidates, most villages also report that the final slate of nominees is still subject to higher-level vetting. While corruption in the election process is a serious problem in some localities, it by no means represents a general pattern. Instead, these reports should be viewed as a way to pressure the state to continue grassroots political reforms. Elections are implemented most quickly and thoroughly when required by law, and especially when mandated by the central government. In areas where the central government has not explicitly specified what local governments are supposed to do, township officials often continue to intervene, particularly in the selection of candidates. One important example is the specified number of candidates. When there are specific central-level regulations requiring more candidates than seats, multicandidate elections are more frequent. However, when central regulations do not specify key details, there is more room for manipulation and corruption. This indicates that top-down enforcement is essential to grassroots democratization and that bottom-up initiative varies widely across localities. Perhaps the biggest barrier to grassroots democratization, Tsai concludes, is not central government capacity but the political will to implement procedural democracy more comprehensively at the grassroots level.

In chapter 7, Xueguang Zhou provides an ethnographic perspective on village elections that complements Tsai's survey-based analysis. Zhou describes a process in which the township government, increasingly stripped of its economic powers by recent economic reforms, gradually withdraws from active manipulation of leadership elections and increasingly relies on procedural fairness as a way to limit the conflict and instability that can appear during closely fought elections. Zhou also describes genuinely competitive contests in recent years—with high voter turnout and the serious concern of candidates over uncertain outcomes—that contrast sharply with earlier ritualistic elections.

Zhou argues that a quiet shift is taking place in the bases of local government legitimacy, creating for the first time a reservoir of legitimacy and power for village heads. Such legitimacy appears in sharp relief against the top-down authority of village party secretaries, who represent not the citizens but the higher levels of the party apparatus. Zhou suggests that this is a subtle breakthrough in rural governance that may have a more obvious and profound impact in future years—as he puts it, preparing "the battleground between the ruling party and the villagers, and between the township government and village leaders." In sum, he describes a shift in village governance that is not fully visible in Tsai's analysis, but is highly compatible with her overall conclusions. Again, we see that regulations and law are beginning to play a more important role. Townships have gone from manipulating the outcome of village elections to ensuring that the election process is fair. For Zhou, these profound changes will likely become "a major launching pad for China's political change" in future years. By this he means that unhinging village power structures from the state administration will not only reduce the potential for collective action in the villages and decentralize political pressures and risks, but also encourage future political reform in other arenas, especially in the urban areas.

In his chapter on the enforcement of rural fertility restrictions, Ethan Michelson describes a draconian program that affected vast proportions of China's rural population. It consumed enormous amounts of rural governments' time and resources, and for more than two decades, generated widespread disputes and considerable dissatisfaction with rural governments themselves. Michelson carefully examines evidence about the prevalence of disputes and their variation across regions and time periods, and concludes that the worst phase of conflict over these policies has now passed. He posits further that they will continue to diminish over time. He marshals impressive data to show that economic development, which reduces rural fertility, also diminishes the number of family planning disputes. This, he argues, will reduce overall levels of discontent with village government. He suggests that family planning conflict "will prove to be a growing pain," and may largely disappear with continued rural development and future policy changes. The more important general point is that the reduction of conflict over family planning will likely ease overall levels of dissatisfaction and political conflict in rural areas.

Public Goods Provision and Citizen Response

In the book's third and final section, three chapters address public goods provision and citizen response—with a focus on health care, environmental protection, and distributive justice, and the formidable challenges that China faces in these arenas. In chapter 9, Karen Eggleston focuses on health care and the provision of public health services. She argues that the reform of China's health-care system has lagged behind other areas of economic reform. The former system of public health has collapsed and the medical service infrastructure has deteriorated. Eggleston notes that effective reform will require that the distorted incentives embedded in the current system, which arose early in the reform era, be restructured. Following the success of dual-track reforms in other sectors, Chinese policymakers instituted policies intended to protect a "plan track" of access to basic health care for even the poorest patients, while allowing a "market track" of providers to allocate new, high-tech, discretionary services according to patient ability to pay and provider profit margins over regulated prices. The plan for basic access was neither defined nor protected in terms of risk pooling. When financing for health care largely collapsed—because it was linked to agricultural communes and soft budget constraints for SOEs—little was put in its place. Only in the early years of the current decade, thirty years into China's reforms, did the SARS crisis and other issues force policymakers to reassess the problems in China's health-care system as a whole. In Eggleston's view, these problems still beg solutions.

Leonard Ortolano describes challenges that are even more staggering in his chapter on environmental protection. Rapid economic growth and urbanization have generated an alarming trend of environment degradation. Ortolano demonstrates the extent of China's environmental degradation and discusses the bureaucratic response. He argues that the conflicting goals of economic growth and environmental protection, poor incentive design in the Chinese bureaucracy, and the environmental protection agencies' administrative dependence on local authorities all lead to ineffective regulation. As Ortolano looks to the future, he asserts that recent policies should improve the effectiveness of environmental protection, but the strong forces pushing for economic growth and expanding urbanization will more likely overwhelm these efforts for years to come. Both Eggleston and Ortolano describe a government bureaucracy ill-equipped to address serious problems effectively. Both fault the administrative capacity of the Chinese public sector, in which incentives are distorted, goals are in conflict, and policy implementation is ineffective. One concludes from their chapters that the process of building an effective administrative structure may be more challenging than creating markets that operate effectively.

Martin K. Whyte's chapter presents something of a contrast, and its conclusions are surprising in light of heightened attention to rising inequality and social tensions in China in recent years. In his national survey of public opinion on inequality and distributive justice, Whyte confirmed that although a majority of the Chinese population sees excessive overall income inequality, few observe excessive levels of inequality in their immediate work units or neighborhoods. Respondents clearly perceived increasing disparities in income and opportunity between rich and poor, as well as the lack of a social safety net for the most disadvantaged. They were remarkably tolerant, however, of market-based incentives and market-induced income differences. Whyte attributes this tolerance to rapid overall improvements in living standards that lend legitimacy to China's present course of market reform. He concludes, against the grain of much recent commentary on China's reforms, that rising inequality is offset by an open mobility structure that China's urban citizens still view as substantially fair. Ongoing debates, he says, "should be regarded as another manifestation of the 'growing pains' precipitated by market reforms, rather than harbingers of imminent political instability or social collapse."

Conclusion

It is hard to avoid the conclusion that many problems that were once viewed as inherently irreconcilable under continued CCP rule have already been basically solved. The state sector has been drastically downsized and reorganized, and the remaining firms have become more profitable. A massive wave of urban layoffs generated higher unemployment rates for several years, which have now largely passed with minimum political disruption. Robust rural markets for agricultural commodities, farm inputs, and labor have been created; they work well and are relatively unregulated by international standards. Corruption remains a serious concern but it is neither extreme by international standards nor is it clearly intensifying. Moreover, it appears not to have influenced public perceptions of the fairness of reform. Policies that once seemed unthinkable within the inherent limits of a ruling Leninist party, and problems that once seemed intractable without major political and social disruption have in fact proved amenable to steady piecemeal reform.

Ironically, many of the most serious remaining problems do not arise from the alleged conflict between a Leninist dictatorship and a liberal market economy. Instead, the biggest challenges result from unregulated market activities and institutions that are too weak to provide public goods and protect the rights of consumers and producers. The health-care system, environmental protection, and anticorruption efforts offer the most glaring examples. From a metaphysical perspective, this is something of a paradox: an insufficiently strong state administration is not part of the essential "logic" of a socialist regime. The biggest remaining challenges, in other words, are to bolster effective governmental mechanisms so they can effectively regulate the heavily market-oriented economy that has already grown up in the shadow of the abandoned state socialist model. Creating and funding a system of social security and health care, promoting environmental protection (and consumer safety), establishing a workable system of land tenure and dispute resolution, reining in official corruption—these issues do not exclusively characterize an economy that is making the transition away from state socialism. To a considerable extent, they are issues shared by a wide range of emerging market economies, from capitalist and (former) socialist regimes to dictatorships and democracies.

China's growing pains are problems of governance, but not necessarily problems of democratization. From a metaphysical perspective, China's transition is "trapped" because the democratization of national political institutions has been delayed and perhaps blocked indefinitely.[6] A democratic transition is surely appealing on normative grounds, but the implied assumption is that competitive elections will create a government that can effectively address the institution-building agenda identified in this book. It is not immediately clear whether a new multiparty electoral system would craft better health-care policy, environmental safeguards, and consumer protection laws, or could successfully gather the political will and consensus to implement bold new strategies. Multiparty electoral systems have proved highly compatible with incompetent national administration and all manner of corruption, both historically and today. Among the dozens of post-Communist states around the world, one of the least common paths for a post-Communist regime to follow is that of a well-functioning democracy. A small minority of these states are consolidated, effective democratic regimes—but most are corrupt dictatorships or unstable democracies. China's current state and future trajectory should not be defined by abstract conceptions of the alleged logic that underlies different political and economic systems. Rather, China must be assessed for what it is—a rapidly developing market economy with an authoritarian political system, which faces the same problems of institution building as every rising economic power in recent world history. The devil is in the details—not the metaphysics.

Notes

[1] See the arguments reviewed in Steven M. Goldstein, "China in Transition: The Political Foundations of Incremental Reform," *China Quarterly* 144 (December 1995): 1105–31.

[2] See the debates described in Andrew G. Walder, "China's Transitional Economy: Interpreting its Significance," *China Quarterly* 144 (December 1995): 963–79.

[3] See Barry Naughton, "SOE Policy: Profiting the SASAC Way," *China Economic Quarterly* 12 (June 2008): 19–26.

[4] For an energetic argument for this position, see Minxin Pei, *China's Trapped Transition: The Limits of Developmental Autocracy* (Cambridge, MA: Harvard Univ. Press, 2006).

[5] Naughton, "SOE Policy: Profiting the SASAC Way," and Gabriel Wildau, "Enterprise Reform: Albatross Turns Phoenix," *China Economic Quarterly* 12 (June 2008): 27.

[6] This is the central problem explored in a stimulating recent collection of essays on China's evolving political system. See Cheng Li, ed., *China's Changing Political Landscape: Prospects for Democracy* (Washington D.C.: Brookings Institution Press, 2008).