

China Model and its Implications

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Abstract

The China Model of Development is a new term widely used among Chinese scholars to define the unique structure of the Chinese economy for the last thirty/sixty years. It is a summarization of the Chinese experience in modernization and globalization. The China Model is not a socialist replica in its original meaning, neither is it a capitalist reproduction. Some western scholars also use this term to distinguish China's way of economic development from theirs. This article discusses the various interpretations and connotations of the term including its theoretical foresight or congenital deficiency, and its practical success, inadequacy, and challenges. The People's Republic of China has been established for sixty years. In the first half of its history, China had followed the former USSR socialist model including central planning, state-owned property, and heavy industry priority, to name just a few features. In the second half of its history up to now, China has pragmatically absorbed various elements from different models and ideas in its own ways, thus is gradually forming its own model. The China Model was planted by the ruling communist party that gave up its ideology of "class struggle" in the soil of socialism. The starting point of this model was a socialist economy with state-owned giants as its backbone, and almost no private business and market mechanism. However, after thirty years, it became a unique model of development that combines socialist beliefs and experiments, and some of capitalist experiences. Within this model, private enterprise takes an important share in national economy; and the market plays a crucial role in prices. This model has brought continuous economic growth that has led the country to being an important player in the world's political economy. The China Model is a model open to anything pragmatic and for its systematic self-improvement. It allows political reforms and economic transformation within the model. It is a model in process with sufficient room for new practices and challenges. China spent the last sixty years experimenting with a model that stuck to socialist principles and abundant material supplies to meet the needs of the Chinese people. Yet, it is a model still facing controversies.

The China Model of Development is both an ongoing process of economic, political, and social progress of contemporary China and an economic terminology that describes the development of a developing country with a combination of a socialist regime and a market economy which is often called socialism with Chinese characteristics and a socialist market economy. However, it is a debatable concept for its definition is not theoretical and its connotation not complete. Between February 23th and 24th, 2009, a China-West Intellectual Summit on the topic of "Is there a China model" was held in Paris. While the Chinese experience is not a copy of any models from east or west, it "cannot possibly be summarized in any single ism" because Chinese experience is "empirical, pragmatical, flexible, learning, evolving, diverse geographically, syncretic ideationally..." (Ash, T. G., 2009). Although no

conclusion was drawn from the summit, the China Model has been used to indicate the unique experience of Chinese development since no economists predicted this kind of model, and left no terminology for identifying it. What do Chinese and Western scholars imply when they apply this terminology, in other words, what is the meaning of China Model? Is there a base for theory in the China Model of Development? What is the practical meaning of this model? What does the China Model mean to China, other countries, and the world? How would the China Model affect the world? Whether it will or will not become an economic terminology, it has many interpretations among scholars and entrepreneurs, and it will be open to the future discussions.

Interpretations of the China Model

The term is used as the China Model, the China Model of Development/Chinese Development Model, or the Chinese Model of Economic Development. In terms of its connotation, it depends on our comprehension and interpretation. Often, there is a clear line between Chinese scholars and mainstream West scholars. Some West scholars do not accept the Chinese experience as a development model; or they think it is too early to call it a model. However, this does not prevent us discussing and interpreting the term.

I. Interpretations from Chinese scholars

There is not a clear definition of the term in China. It usually refers to:

“A development model which is based on specific national condition, sticks to socialist system, absorbs capital and experience from western countries, opens up to the outside world, attracts foreign investment, encourages private enterprises, shows high administrative efficiency and enjoys consecutive economic growth for many years.” (People’s Daily Online, Sept. 18, 2009)

Pan (2007) explains the China Model via its four sub-systems: social organization, developing its economy, government, and outlook on the world. The China Model is supported by its “ideological neutrality”. In literature, the China Model is often summarized with characteristics of a trio of attributes, three advantages, five “-zations”, and five civilizations.

1. The Trio of Attributes: Base of the China Model

The Chinese model of development has been formed on a base with three characteristics or a trio of attributes of: a developing country, a transitional society, and a socialist regime (Chang, 2009). China just moved in a middle-income country from being a low-income country. But it is still a developing country since its GNI per capita (about \$3,000 in 2008) is way below the World Bank’s numerical standards of \$11,905 and above for a developed country. Before it has establishment of a society with sustained and harmonious development and an economy with ecological and environmental protection, China is still a transitional society. The China Model started from a growth model, and its continuity depends on a sustainable development. Nevertheless, China has not given up some of the fundamental

socialist principles such as government's leadership in macro planning, formulating economic policies and rules, public ownership in important areas, awareness of governing for the people, etc. Government plays roles of both leadership and participation as an important element in Chinese socialist market economy (Shen and Bai, 2006).

2. Three Advantages: Basic National Conditions

The China Model is a product of Chinese national conditions. Chang (2008) identifies three characteristics from Chinese society that are advantageous to the fast development of its economy: a rich labor resource, a broad market, and an economic reform at the information age. China has about 760 million cheap workers of different ages between 16 and 60. The yearly commodity sales volume has reached near 800 billion RMB. In the last 29 years, China absorbed \$700 billion worth of foreign investment. The fact that the industrialization process of China has been taking place in the age of information and biotechnology speeds up the process itself. China as a developing country can take advantages of being able to access new technologies from, and share the new information with developed countries.

3. Five “-zations”: Supports of the China Model

The China Model emerges in a historical period when five “-zations” are simultaneously in progress. They are industrialization, informationalization, urbanization, marketisation, and globalization. The five “-zations” have to be examined along with Chinese characteristics as Chang (2009) explains. Industrialization in the China Mode has to combine high-tech and human resources, enterprises run by either cities or towns and villages, progression with energy-saving and environment protection, industrial restructuring and economic structure transformation, introducing foreign investment and maintaining independency. As Chinese industrialization takes place in the information age, China unceasingly promotes information technology in the process of industrialization. Unlike most developed countries whose completion of industrialization happened before the age of information, industrialization and informationalization in China come about at the same age. In terms of urbanization, “townization” is a word to be created to describe the process of urbanization in the national reality of China. At least, “townization” is an important part of Chinese urbanization. The Chinese market economy is built on the base of a planning economy. In a short period, the Chinese market has opened up to both domestic enterprises and world fortunes. China is becoming the biggest world market. In terms of globalization, it goes beyond foreign investment and world market. The Chinese economy has been inseparable from the world economy.

4. Five Civilizations: Multi-dimensions of the China Model

The China Model is a development process within a special cultural and social environment with five dimensions. Chinese scholars often call this “quinquepartite entity” of five civilizations: economic, political, cultural, social, and ecological civilizations (Chang, 2008) or material, spiritual, political, social, and ecological civilizations (Gong, 2007). Chang's simple explanation is as follows: economic civilization focuses on a socialist market economy; political civilization aims at socialist democracy;

cultural civilization means a socialist advanced culture; social civilization is to establish a harmonious society; and ecological civilization includes both resource conservation and environment protection. The core of the five civilizations is socialism with new connotations of market, democracy, harmony and environment. It is a combination of Chinese philosophy, socialist beliefs, capitalist experiences, and the new phenomena of contemporary society.

II. Interpretations from non-Chinese Scholars

The differences among the interpretations of Chinese scholars on the China Model are usually within the connotations of the term they use or their understanding of the concept of “model”. Chinese interpretations are more or less combinations of theories and practices within the Chinese tradition of a philosophical macro-outlook. The interpretations of non-Chinese scholars vary greatly from negative to positive.

1. A Dying Model

Francis Fukuyama (1989) thinks history ended with the triumph of western liberalism. The only challenges to liberalism, fascism and communism, were defeated by capitalism. The Soviet Union no longer exists and Chinese competitiveness and expansionism on the world scene have virtually disappeared. To Fukuyama, the China experience is a dying model of Marxism and Leninism. Since the western democracy is the end of the history, there will not be any other model but the western model.

2. A Model Difficult to Define

History has gone a different path from what Marx predicted (that socialism would overcome capitalism). Reality does not prove Fukuyama’s prediction either since many countries in the world are not following the western path, for example, China. However, the Chinese experience cannot yet be summarized theoretically because of its deep pragmatism and constant change. It is a combination of many isms (Ash, 2009). China is still a developing country. It has just crossed the 50% urbanization mark. When China becomes developed, many questions are going to arise. How China is going to contend with failures and setbacks is the premise of modernization theory (Gat, 2009). Because it is constantly adapting to facts (Rachman, 2009), the definition of the China Model can never be completed.

3. An Alternative Development Path for Developing Countries

Recently, Dao Duy Quat, editor-in-chief of Communist Party of Vietnam Online Newspaper, concluded the experience of China’s reform and opening up is as follows: “find a development path suitable for your national condition, keep the leadership of Chinese Communist Party and keep the unity of all ethnic groups.” The Indian economist Jayanta Roy made this comment after his trip to China: “there is a hope for a developing country to outstrip the giants in a reasonably short period of time” (People’s Daily Online, 9/18/2009). They consider Chinese experience as a development path or alternative, but not as a model. However, to some non-Chinese scholars, what China is doing is more than an experience or a hope.

4. A Model Different from Washington

The term that Ramo uses to summarize the Chinese experience is “The Beijing Consensus” which is also the title of his book published in 2004. The term is used to distinguish what China has been doing from the model the US set in the 1990s, the Washington Consensus, a “Washington-knows-best approach to telling other nations how to run themselves” (Ramo, 2004). According to Ramo, the Beijing Consensus means both social and economic changes, “using economics and governance to improve society.” It has “three theorems about how to organize the place of a developing country in the world.” They are: innovation, sustainability and equality, and self-determination. The Beijing Consensus contains many new ideas that are very different from the Washington Consensus. Those ideas surpass the realm of economics, politics, quality of life, and the global balance of power (2004).

III. The China Model and its Megatrends

While the proposer of the Beijing Consensus concludes that “no one knows what it will look like in 20 years” (Ramo, 2004) the bestselling author of *Megatrends*, the futurist John Naisbitt and his wife wrote in their new book of *China’s Megatrends* (2010): “China is creating an entirely new social and economic system.” It is neither socialism, nor capitalism. China is also not the sum of socialism and capitalism. There are eight elements, or “eight pillars” of China Model as they listed: the emancipation of the mind; balance top-down with bottom-up; farming the forest and letting the tree grow; crossing the river by feeling the stone; artistic and intellectual ferment; joining the world; freedom and fairness; and from Olympic gold medals to Nobel prizes. According to the Naisbitts, the China Model is only a third of way towards realizing its potential. It will not only change the global economy, but also challenge Western democracy with its own model (Ting, 2009).

Although most western scholars consider China as an authoritarian socialist regime (Cook, 2009), Naisbitts (2010) think that China is at the initial stage of a vertical democracy that is different from western horizontal democracy, and that it was established based on Chinese history and Chinese beliefs. The key of Chinese vertical democracy is the balance between government’s top-down instruction and Chinese people’s bottom-up participation. The government is not formed by election but through its performance and people’s trust. Thus it focuses on the government’s performance and on realizing its long-term goals. Like a CEO of a big company, the Chinese government plays the role of macro leadership: a policy-making environment, building the value system, setting up general goals, establishing an efficient management team, encouraging employees to participate, and deferring the process of appropriate program, decision-making and execution.

There are common connotations shared between Ramo’s Beijing Consensus and Naisbitts’ China Model. For example, both of them describe the Chinese experience as flexible, innovative, and pragmatic. “Change, newness and innovation are the essential words of power in this consensus.” “China doesn’t want to copy the rest of the world” and “is determined to find its own route” to make “the Chinese way of life” (Ramo, 2004). China welcomes any forms of democracy, but is not going to adopt western democracy because it does not fit Chinese reality (Naisbitts, 2010).

Leung (2009) discusses China’s megatrends in 10 perspectives. They are massive urbanization, rapid mobility, rise of the middle-class, largest moderate-income economy, quiet green revolution,

science, technology and innovation, an even more-global China, defense, building a harmonious world, and civil society. While Naisbitts discuss more about the establishment and practices of the China Model, Leung addresses China's megatrends and their global implications with lots of statistics and estimations. The global implications of one billion urbanites by 2025 are more resources and business opportunities; 100,000 km of railway by 2020, rapidly development and vast supply chains; 36.4% of middle-class families with 100,001 to 200,000 RMB household income by 2025, reducing over-reliance on exports; more than 30% of aging population of 60 or over by 2050, social and financial burden; environment protecting energy such as hydro-electric, wind, nuclear, hybrid electric power, an ecologically-conscious society with 1/5 mankind; Lunar Rover on moon surface during 2013-17, and Lunar Rover exploration and return in 2017-20, 750 international corporate R & D centers, and home-made aircraft, international competition and advances in science and technology; 3 Chinese corporations (PetroChina, Industrial and Commercial Bank of China/ICBC, and ChinaMobile) in the world's top 5 by market capitalization, foreign currency reserve, and RMB-denominated transaction products, full integration of China into global community; a nuclear power and keeping up with modern military technology for more cost-effective credible deterrence, more international cooperation for peace-keeping and fight against piracy; Confucian Harmony joining no blocs, and need for benign environment to build a solid foundation, China's growing global influence in UN, World Bank and the IMF; quarter of a million local NGOs, 36 million blogs, public hearings, local elections, public feedback through the internet, restoring a measure of global balance and harmony.

When capitalism progressed ahead of economists' predictions and theories, new solutions, strategies, and interpretations were put out to save or improve the system. The socialist regime of the Soviet Union disintegrated. But there are other socialist countries such as China, which are exploring a new direction to improve and save socialism. The economic success of China brings the necessity of theoretical exploration of the Chinese experience. It will be a milestone in politics, economics, and political economy.

Connotations of the China Model

"Chinese learning for the essence, western learning for practical use" was the guideline of the first westernization movement in China (Yang Wu Yun Dong) between 1860 and 1890. The Qing dynasty built up military and civilian industries with new technologies from western countries to safeguard its feudal rule. However, it strengthened neither Qing's economy nor its feudal regime. One hundred and twenty years later, within the same duration, China has not only experienced a world-shaking change in its economy, but also "is creating a whole new system" or the China Model (Naisbitts, 2010). Besides the disadvantageous international environment the first westernization movement was in, the main reasons for its failure were that the feudal regime was not open to change, and that it did not represent the interests of Chinese people. The guidelines of the Chinese socialist regime took the same format as the westernization movement, but the content and procedure are very different.

Thirty years ago, China realized that the country needed a new model because the old model showed its congenital deficiency for bringing the economy to a development track. The old system put

its efforts on “class struggle”. The central planning economy was in the hands of those state-owned enterprises based on the principle of “iron rice bowl”. Can a socialist country find its way out of a political or economical chaos like capitalist countries did? Can China find a new model of self-improvement and development? Does China’s experience fit into any Western or Eastern models of development? Why has China’s economic development been forming an economic model that is different from other countries? Why did not China follow the path of the Soviet Union yet saved the fate of socialism?

I. Socialist Principles and Vertical Democracy

When Mao Zedong and the Communist Party of China (CPC) chose communism as its belief, they wanted to establish a society of the people and for the people where all Chinese could share the means of production and subsistence. Mao was not an economist and did not realize that this socialist ideal should be based on material wealth. Instead, he, being a role model himself, advocated arduous effort and thrift to realize the ideal he set up for the country. Under these circumstances, Mao focused more on class struggle, and did not emphasize economic development. He brought Chinese people equality but did not satisfy their material needs. To the opposite, he initiated the Cultural Revolution that nearly destroyed the whole economy. However, the Cultural Revolution was not a product of socialist system but a chaotic incident, which happened, in a special historical period due to the power struggle among top leaders and the lack of democratic mechanisms in government. Mao Zedong’s ideal later was modified by the three leaderships of Deng Xiaoping, Jiang Zemin, and Hu Jintao based on China’s reality and the changed international environment. They perceived Mao’s mistakes, but still insisted on the socialist principles Mao had chosen, and enriched them with new experiences and better solutions. Thus western-originated communism became the socialism with Chinese characteristics. It is neither Marxism nor Leninism but a new version of socialism “made in China”. It is possible that Marx’s ideal will be realized in a future China.

When Deng Xiaoping switched the basic policy of “class struggle” to “economic development”, he did not give up socialist principles. In March 1979 at a meeting of theory discussion of the CPC, Deng stated the “Four Insistences” as the premise of China’s Four Modernizations”, and one of the “Four Insistences” is the insistence of socialism. In 1992, Deng Xiaoping emphasized that Chinese should insist on the basic principle of the CPC at least for one hundred years. Meanwhile he pointed out that central planning or a market-oriented economy was not the essential distinction between capitalism and socialism. The essence of socialism is to release and enhance productivity, and China should have its door wide open to learn anything advanced from other countries including capitalist experiences and management.

Jiang Zemin’s Three Represents is a further theoretical annotation of the China Model. Put forward first in 2000, Three Represents means that the CPC represents the development trends of advanced productive forces, the orientations of an advanced culture, and the fundamental interests of the overwhelming majority of the people in China. Jiang protected the legitimacy of his government and the CPC regime in talks with western journalists. He stated that without CPC’s leadership, China would have become “a pile of loose sand”; that China has its own election system; and that the CPC does not

need an opposite party to restrain it, but relies upon reforms within the CPC itself.

In 2006 Hu Jintao told the audience at Yale University that China welcomes any practical democratic procedures, but would not accept the western style of democracy. In March 2009, the chairman of National People's Congress (NPC) Wu Bangguo announced in his report that China would never implement a multiparty system, separation of the executive, legislative and judicial powers, or a bicameral system.

The CPC is gradually becoming an experienced party in leading a great country for sixty years. They realize that the lifeline of their leadership includes two key points: economic development and improving the living standards of ordinary Chinese. They also realize that material forces and ideational forces should "work together organically rather than independently to drive social change" (Tang, 2007). In 1982, in the Report of the 12th Convention of the CPC, material civilization and spiritual civilization called "The Two Civilizations" were put out as the goals of the party. In 1987, on the CPC's 13th convention, political civilization was added on, thus it became "The Three Civilizations". In 2006, "Four Civilizations" including social civilization became the goals of China's modernization. Hu Jintao formally pointed out the fifth civilization, ecological civilization, at the 17th convention, thus forming the theory of Five Civilizations as the guidelines of China. Gong (2007) interprets the dynamics among the five civilizations: ecological civilization as the premise of the system; material civilization, the foundation; political civilization, the safeguard; spiritual civilization, the soul; and social civilization, as the goal.

In terms of democracy, from Chinese People's Political Consultative Conference to National People's Congress, China is gradually increasing the participation of ordinary people through a "vertical democracy" (Naisbitts, 2010). It is not only the promise for election, but also the reachable goals through the corporation between bottom-up participation and top-down instruction mechanisms (Naisbitts, 2010). The top leaders of Chinese government are like CEOs of big companies. Their positions are not through elections but based on their performance. According to Naisbitts, the strong points of Chinese vertical democracy are: no fight between parties, no interest groups involved, no worries about election, propaganda or someone pulling strings behind the scenes, or working only for quick success and immediate gain without long-term considerations. Vertical is used to describe its form. How about its essence and institutions? It will exercise the authority under the sunshine (Hu Jintao). It will consider Chinese people's interests as the first priority, and let people gradually participate in government (Hu Jintao, 2007). So it will be of the people, for the people, and responsible for the people (Wen Jiabao, 2008). This vertical democracy based on Chinese history and Chinese way of thinking is still at its "initial stage" (Naisbitts, 2010), it is not by the people as in Lincoln's speech or people's power (Minquan) as in the Three Principles of the People by Dr. Sun Yat-sen. Naisbitts (2010) make an analogy between Deng Xiaoping, Jiang Zemin, Hu Jintao and CEOs. At this stage, CEOs rather than individual employee make the important decisions in this vertical democracy.

China calls its reformed system a market economy with socialist characteristics. Socialist ownership still takes its position in energy and resource areas, claiming them as representing people's interests. Somewhat like the westernization movement a hundred years ago, the essence of this new economy is socialism; the root exists in Chinese native culture. In establishing the new model, China

emphasizes Confucian collectivism, and puts more weight on morality and justice than on benefits. In order to resist the concept of “benefit comes first”, the China Model emphasizes humanism and a harmonious society as its ultimate goals. Ideologically, the China Model is established on Confucian Socialism.

II. Economic Transformation and Sustained Growth

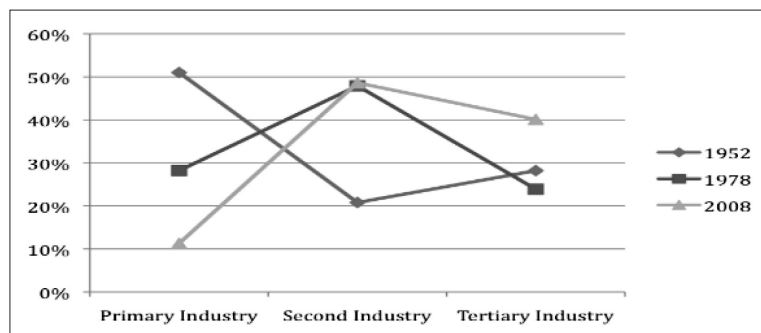
The first transformation in China happened in 1978 when the country initiated a priority-shift from “Class Struggle” to economic construction (Yang, 2007). Due to the first transformation, China established a socialist market economy that brought sustained growth for a long period of time.

Items	1952	1978	2008	Increase
GDP (billion RMB)	67.9	364.5	30,067	8.1% / 9.8%
GNI per capita (RMB)	119	381	22,698	6.5% / 8.6%
Foreign Currency (billion US\$)	0.139	0.167	1,946	No. 1 in the world
Total Supply & Demand (percentage in the world)		1.8%	6.4%	No. 3 in the world
Public Revenue (billion RMB)	6.2 (1950)	113.2	6,131.7	985 times

When the China Model more implies the second thirty-year of Chinese experience, one cannot possibly separate the two thirty-year periods. It started with high rural population and low urbanization. The majority of Chinese lived simple lives at a very low consumption rate. There was no such thing as a societal stratum of middle class. The structure of ownership was monochromatic with an absolute equalitarian allotting system. The industrial structure has gone through two major transitions. In the first thirty years, the change was mainly between primary industry (agriculture) (from 51% reduced to 28.2%) and second industry (heavy and light industry) (from 20.8% increased to 47.9%). During the second thirty years, the change was mainly between primary industry (from 28.2% reduced to 11.3%) and tertiary industry (service) (from 23.9% increased to 40.1%) (See the chart below).

Proportion of Three Industries in GDP

	Primary Industry	Second Industry	Tertiary Industry
1952	51%	20.80%	28.20%
1978	28.20%	47.90%	23.90%
2008	11.30%	48.60%	40.10%

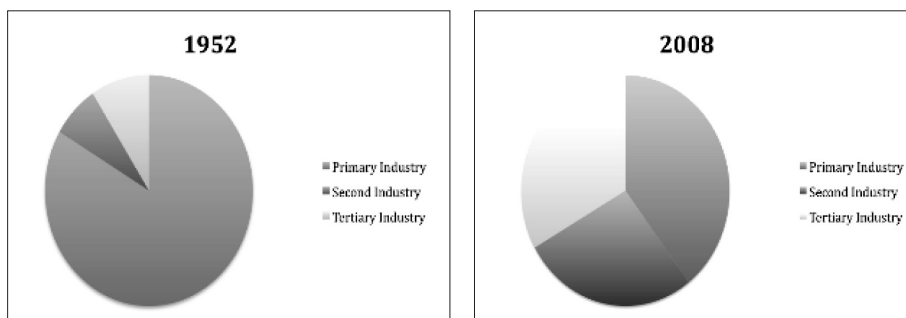


Resources: National Bureau of Statistics of China, 2009.

However, the proportion of tertiary industry in the GDP was lower than the world average of 60%, and even lower than India (50%), not to mention the US (80%) (Zhang, 2008).

Proportion of Employment among Three Industries

	Primary Industry	Second Industry	Tertiary Industry
1952	83.50%	7.40%	9.10%
2008	39.60%	27.20%	33.20%



Resources: National Bureau of Statistics of China, 2009.

The restructuring of the three industries has taken place along with the sustained growth and urbanization. Meanwhile, systematic transformation has happened in the areas of ownership, economic mechanism and urbanization. In the first thirty years, China established a system of “trinity” (Lin, 2008): manipulating the price signal, administration for planning and distributing resources, and depriving companies of decision-making. Walking out of the “trinity system”, China needs denationalization and marketization.

1. Denationalization

As a developing country, the government has to play the role of macro controlling the economy including directing and participating in economic activities (Shen, 2006). In 1949, the new government was eager to develop its heavy industry to strengthen the country, but had no capital. Yet, heavy industry is a capital-intensive business. The government wanted to accumulate all possible capital to be used in those important industrial sections. In 1950s, after creating a joint state-private ownership as the socialist transformation of capitalist companies, China completed the transformation of ownership, and formed a monochromatic public ownership.

1.1 From a monochromatic ownership to multiple ownerships

There are two forms of public ownership in China. They are ownership by the whole people and collective ownership. In 1978, public ownership accounted for 100% in gross value of industrial output. Among industrial enterprises, those with ownership by the whole people comprised 24% of the total companies with 77.6% of gross industrial output value; those with collective ownership accounted for 76% of the total companies with 22.4% of gross industrial output value. Thirty years later, state-owned companies still controlled most production of energy and natural resources, for example, 96.6% of oil

and natural gas, and 90.8% of electricity. However, there has been a historical change in ownership since 1978. First, public ownership adopted a variety of forms such as cooperative economy, joint stock system, stock cooperative system, and various mixed ownership economy. Second, non-public ownership has developed dramatically. In 2007, among companies worth 5 million RMB and above of fixed assets, 90% of them are under the non-public ownership with 68% of gross industrial output value (NBSC, 2009).

1.2 Decollectivization of agriculture

Denationalization in rural area is called decollectivization because China's agriculture adopted collective ownership before the reform. In the process of decollectivization, a household responsibility system took place in the rural areas in which collective land was assigned to households for up to fifteen years. In October 1978, 18 starving peasants from a small village in Anhui province initiated this systematic innovation, which was adopted by the government as an important policy in economic transformation in agriculture (Naisbitt, 2010). In 1981, the household responsibility system was promoted nationwide and 45% of families adopted it. In 1982, it reached 80%, and 99% in 1984. During the years of 1978 and 1984 from when the household responsibility system appeared to when it was popularized, agricultural productivity reached 7.7% from 2.9% in years between 1952 and 1978 (Lin, 2008).

2. Marketization

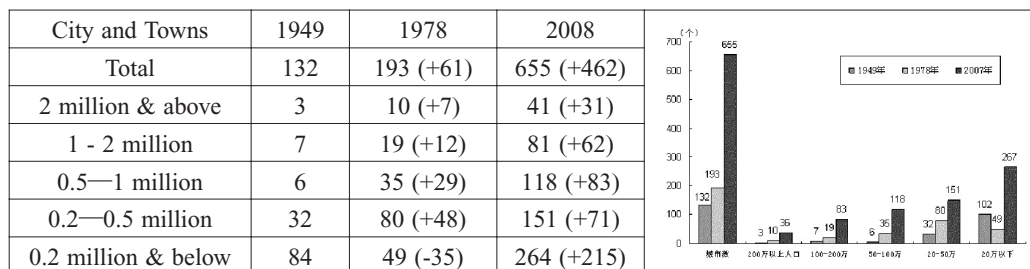
In the first thirty years with a planned economy, the government controlled the economy of the whole country based on public or collective ownership of the means of production. This system along with socialism was criticized as the main reasons for the backward Chinese economy. However, according to the honored economist of the World Bank, Dr. Lin Yifu, under the circumstances, the planned economy was the only solution for China whether it was a socialist country or capitalist country. As a backward agricultural country, China had no capital for its heavy industry, no foreign currency to import machinery equipment, and individual companies could not afford bank interest for a long-term business. China had no choice but a planned economy with government interference (Lin, 2008). However, this should not apply equally to light industry, tertiary industry, or agriculture. So the issue is neither a planned economy nor socialism, but more or less related to the national economic structure, the variety of ownership forms and their proportions.

Before 1978, the market played no role in price setting. Since 1978, the Chinese economy has had a strong market orientation. Prices of more than 98% of total consumer goods, more than 95% of means of production, and 97.7% of farm and sideline products are adjusted by the market (Chang, 2009; Zhang, 2009). However, this market economy is built on Confucianism that emphasizes collective spirit, loyalty, and affection (Shen, 2006).

In the rural area, there were two main issues before the reform: state monopoly for the purchase of grain, cotton, etc, and the cancellation of farmers' markets. The government initiated a price reform, and the average price of agricultural products increased 22.1%. Meanwhile, farmers' markets went back to normal, as did the long distance transport of goods for sale (Lin, 2008).

3. Urbanization / Townization

Townization is a more descriptive word than urbanization for the Chinese situation. In last sixty years, the number of cities has increased four times whereas towns nearly eight times. Now China has less than 700 cities, but it has around 20,000 towns. China's urbanization has developed from 7.3% in 1949 to 45.68% in 2008. The following chart and graph show the progress of urbanization in a comparison of the first and the second thirty years.



Resources: National Bureau of Statistics of China, 2009.

In the first 30 years, the total increase of cities was only 61. But in the second thirty years, city numbers increased 462, 7 times that of the first 30 years. The development of towns is even faster in the same duration. In 1978, the whole country had only 2173 towns. At the end of 2008, China had developed 19,234 towns (NBSC, 2009).

There is an imbalance in economic development, and in the distribution of cities and population. 65.3% of urban population resides along the coast, and 34.7% inland (Fu, 2005). In 2004, Tibet was at the lowest rate of 20% in its urbanization, and Guangdong at the highest rate of 63%. Among other provinces, the depth of urbanization varies: Guizhou, 26%; Yunnan, 28%; Gansu, 29%; Sichuan, 31%; Anhui, 32%; Hebei, 35%; Xinjiang, 35%; Shandong, 43%; Hainan, 44%; Fujian, 46%; Jiangsu, 48%; Zhejiang, 54%, etc. (Baidu, 2005). The figures show the fact that the level of urbanization has downsized from the east to the west. Another fact is the level of urbanization in minority areas is lower than in Han areas.

Urbanization takes place at various speeds in different areas. It closely connected with the development of the economy and the process of industrialization. During the first “five year plan”, many new cities appeared as the centers of newly established textile, coal, steel and oil industries. The urban population in Jiangsu province reached 50.5% at the end of 2005, and has increased 9% since 2000. It is expected to reach 65% by 2020 (Jiangsu Urban Forum, 2006).

Most big cities are located along the east coast, as are industries, commerce, and foreign investment. Thousands of jobs were created in those big cities along the coast especially during the transformation period, which attracted millions of migrant workers swarming into the cities. However, the cities are not ready to absorb such a population including housing, health care, and education needs; migrant workers are not ready to be integrated into urban life for many of them only work as day labourers who do not have a home in city and their families are not living with them. So they are not permanent urban residents. They consider their work in cities as seasonal, for making extra money beside the land in countryside. They hardly spend money other than that necessary in their city life, but

save most money for their families and homes back in the rural areas. So strictly speaking, only those who have a home with family and permanently live in the city be included in statistics of urbanization. Experts predict that the urban population will surpass rural population in 2010, and reach 60% in 2020, 70% in 2030 (China News Net, Aug. 11, 2009).

4. Inadequacies and Challenges

Flaws and problems occur even though economic figures are bracing. First, the obstacle to expanding domestic demand cannot be removed in a short time. The balance among investment, export, and consumption more depends on domestic demand since investment and consumption are part of domestic demand. Second, the share of services in GDP needs to be increased more. In last thirty years, it increased about 16%. But it is only half of the weight of services in GDP in the US (Wheatley, 2009). Third, the peasant issue cannot be solved before reducing the gap between city and countryside, and between coast and inland. That Chinese peasants are rich is the key to closing all these gaps. Fourth, high-energy consumption prevents sustainable growth and a green economy.

Further development depends on transformation at deeper levels including the ways of further economic increase and development, from extensive to intensive, from GDP growth to sustainable development, from a monochromatic economy to an omni-directional progress, and from a material-focused to a human-focused economy (Chang, 2009). In other words, the Chinese economy needs another transformation, and the China Model needs new practice, or to use Yang's words (2007), "the Second Transformation".

Trends of the China Model

China claims its rapid growth as the result of CPC leadership, the "Open Door" policy, and the government's closeness to its people. Westerners explain the economic miracle of an "authoritarian" political regime as the results of its pragmatism, experimentation, and gradualism. As Cook (2009) points out, policies and institutional arrangements that facilitated earlier stages of rapid growth may later become obstacles to further development. China needs further reforms in both economy and political system to more readily adapt to market-oriented economy and sustainable growth.

I. Omni Directional Openness and Progress in Democracy

In its early stage, the PRC had no capital or products to exchange with the outside world. Under the shadow of the Cold War, no capitalist countries wanted to support China. Before the Cultural Revolution, the PRC adopted a policy of semi-closed door with limited exchange programs with socialist countries, mainly the Soviet Union. During the Cultural Revolution, the CPC was involved in a domestic dispute. The policy towards outside the world was total-closed door. The CPC government failed to lead the country forward, and the national economy nearly collapsed. In the early 1970s, China started its relationships with two main capitalist countries, the US and Japan, especially the open door policy in 1978, China started a long journey to omni-directional openness.

It took China's many steps to open its economic door. In 1980, China established four special

economic zones in Guangdong and Fujian. Four years later, 14 coastal cities started opening their doors. By the end of the 1980s, China opened up all its coastal areas including the Yangtze Delta, the Pearl River Delta, the triangular areas of Quanzhou, Zhangzhou, and Xiamen, the peninsula of east Liaoning, the peninsula of Shandong, and Hainan Island. In the 1990s, China's openness expanded to nearly everywhere, from coast to riverine, inland, and border areas. The country was finally set up for its omni-directional openness. However, joining the WTO in December 2001 was the real beginning of China's omni-directional openness. Since then China's openness has become a systematic one under the rules and laws of the WTO. Bilateral business negotiation was transformed into bilateral or multilateral cooperation. The regions of China's openness started from trade and foreign investment in technology, and expanded to services including tourism, transportation, communication, insurance, finance, IT service, consultation and advertisement, etc. Meanwhile, the formats and levels of openness have been deepened. China successively set up various forms of trade regions, such as special zones of economic development, high tech development, bonded areas, export processing, and border economic cooperation. In conclusion, after many steps in thirty years, China's openness is an omni-directional one at many levels in broad fields.

Whether the Chinese political system can be called a vertical democracy as Naisbitts define it, economic openness created a positive environment for political openness. One element that the current Chinese government inherited from the founder of the PRC Mao Zedong is its closeness to the Chinese people. Mao Zedong is the son of a peasant family. Millions of Chinese peasants supported and helped Mao and his regime. Mao and his followers understood that without ordinary Chinese people, they would lose their power. The CPC advocates representing the interests of Chinese people, and serving them as well. At the level of central government, the systems of political consultation and people's congress were established, as the CPC considers its government a type of people's democracy. According to Naisbitts, westerners believe in a horizontal structure of democracy in which every individual is equal to vote for his/her leader. But the Chinese believe that every individual belongs to a group. Harmony within a group is more important than individualism. Maintaining social order is the main concern of majority Chinese. They would rather not choose a system of two opposite parties, but a system in which agreements are reached through top-down instruction and bottom-up participation.

Compared to economic reform, political reform has been taken on at a more cautious and slower pace. However, its process has been gradually growing. The first political phenomenon is the local election for village officials. It started in 1980 when 85 families elected their village committee by secret ballot in a small village in Guangxi province (Wu, 2008). The village is named as "the first village of villager autonomy" because of its history-making activity. It was put into the constitution as a form of local election. In 1988, the government issued a law on organizing villager committees. After trying out for ten years, it became a formal law. According to the statistics from the government, between 2005-2007, among 626,655 villages (98.4% of total villages in China) from 31 provinces, 623,690 villages carried out elections, accounting for 99.53%. There are still some disturbing factors such as family influence, corruption, illegal elections, etc. They need to be solved. The second political phenomenon is hiring government officials through examination. On August 19, 1994 the highest level of central government in China had its first exam for civil servants. Since then, appointment to a

position in government through the civil servant exam became a common practice of various divisions and offices at different levels. Most of the examinees are graduates from colleges or graduate schools. The competition is very intensive. The third political phenomenon is more communication between government officials and ordinary people. In the communities, serving for residents and improving the environment are important standards of local officials' performance. Officials of the central government including Hu Jintao and Wen Jiabao often spend time with average Chinese people especially when people encounter big trouble such as natural disasters. The fourth political phenomenon is anti-corruption and combating criminal organizations. The fourth meeting of the 17th National Congress of the CPC in September 2009 decided that anti-corruption would be an important political task of the party. Within 40 days by Oct. 28, three high officials at the provincial level have been put under investigation for their corruptive behavior (Dong, 2009). Recently in the combat on criminal organization in Chongqing, the Public Security Department of the city cracked down 70,577 criminal cases and arrested 28,274 criminals from January to September 2009 (Hou, 2009).

II. The Second Transformation and Sustainable Growth

On June 25, 2007 in a speech at the Party School of the CPC Central Committee Hu Jintao published the theory of scientific development as CPC strategy in the new period. The scientific outlook on development takes development as its essence, putting people first and core, comprehensive, balanced and sustainable development as its basic requirement, and overall consideration as its fundamental approach (Hu, 2007). The scientific outlook on development is the theoretical guide for China's further development, its second transformation, and its sustainable growth. The first transformation brought the country ownership reform, marketization, townization, and sustained growth. It left inadequacies such as insufficient domestic demand, imbalances among investment, export and consumption, among the three industries, and among different areas in China. It also left challenges to a sustainable growth such as energy saving and reducing the discharge of three wastes. A comprehensive, balanced and sustainable development will better serve people, and bring omni-directional development in terms of different sections, industries, and areas. It will also bring harmonious relationships between multi needs of people and their omni development, among five civilizations, between cities and villages, among different regions and different economic sections, between domestic development and openness to foreign business, and between humans and nature. In order to have a sustainable growth in the next thirty years, China needs a balance in many areas to create a harmonious society.

1. Balance among Areas of East, Central, and West

When the PRC was established, cities, industries, and the population were mostly concentrated in the coastal region in the east. In the 1950s, the government established many industrial cities in central China. The ratio of cities in East, Central, and West was 1:1:0.4 in 1957. In the 1960s, the government devoted major effort to economic structuring in the central and west areas. By 1978, the ratio of cities in three areas became 1:2.2:0.6. However, in the second thirty years, city numbers in the east increased 215, whereas the central area was 162, and west area 85. So the ratio of cities in three areas went back

to 50 years ago as 1:0.9:0.4 in 2008 (NBSC, 2009). The situation should change when the Great Western Development Program continues and progresses successfully.

2. Balance between Town and Country

There are two things critical in balancing the urban and rural areas. First is to speed up the development of agriculture including agricultural technology and agriculture related township enterprises. The goal is to help peasants to become richer so that they can be consumers of commodities. In 2002, every 100 families in cities had 120 TVs, 82 refrigerators, and 93 washing machines; the corresponding figures in rural areas were 60, 15, and 32. The average income per capita was 7,702 RMB in cities and 2,475 RMB in countryside (Lin, 2008). Making peasants rich is not only an important task in building up a socialist countryside as the goal set in China's "11th Five-Year Plan", but also the key to expanding domestic demand. In recent years, the government has initiated the organized sale of cars and home appliances with a subsidy to improve peasants' life. The second is to help migrant workers to settle down in cities with their families. It is estimated that there were 0.226 billion migrant workers in China in 2007 (Li, 2009). They are extra men for some labor-intensive companies in cities such as construction and sanitation companies. They are the builders and dustmen that cities need. However, they could not enjoy the benefits of city residents. They bring most of their wages back to their families in the countryside, so they are not consumers in city life. They are not helping the development of the service industry in cities. They not only cannot afford to have a permanent home in the city but also cannot have their own residences. In conclusion, they are neither part of the New Countryside nor assimilated into the city economy. Helping migrant workers settle down in cities means making a stable life for millions of families, development of services in cities, thus helping the reconstruction of agriculture and the countryside.

3. Balance among Three Industries and within each Industry

Employment is a serious problem in China. In 2008, there were 5.59 million college graduates, in 2009, 6.1 million (Zhang, 2008). However, China could not create enough jobs proportionally to match its economic growth. According to the National Bureau of Statistics, urban job growth has averaged 3.8% a year, which was less than South Korea or Japan have done at similar stages of development (Wheatley, 2009). Between 2003 and 2007, China's GDP increased approximately 10% each year, but the employment increased only 0.8%. 1% of GDP increase only brought 0.8 million of jobs (Zhang, 2008). One of the main reasons is the imbalance among industries and divisions. As McKinsey Global Institute holds that "service will need to fill the employment gap that China's industry-focused model has left as well as to boost incomes". And it estimates that a shift toward services could create more than 100 million jobs by 2025 (Wheatley, 2009). In last thirty years, wholesale and retail activity decreased from 27.8% to 19.2% of its proportion in tertiary industry whereas real estate increased from 7.3% to 10.6% (NBSC, 2009). While the economy booms, wholesale and retail activity normally increases. The overwhelming development of real estate may be one of the causes. It creates fewer jobs than other sections within the tertiary sector.

4. Balance between Rich and Poor

Balancing three industries means creating more jobs; and more jobs mean more consumption. As mentioned above, when migrant workers are integrated into cities, they can gradually enhance their living standards. The next generation of migrant workers have more chance to move upwards to the middle class or richer class. When they become regular consumers of city life, they bring more demand for services and create more jobs, thus reducing the number of unemployed people. Another phenomenon is that value increasing of housing greatly surpasses income raises. Ordinary Chinese have to use up all the savings of generations including the “future savings” to buy a place to live, and are left with no money to consume. Even those college graduates with white-collar jobs and a decent salary could not afford an apartment in cities like Beijing and Shanghai. In the process of urbanization, the economy should produce a group of people as middle class who can afford an apartment with the help of the bank loan. They will have extra money to consume and to stimulate the service industry, and thus to revitalize the economy. Meanwhile, it will reduce the unemployed, and improve the poor.

5. Balance between Humans and Nature

Energy saving and environmental protection are the two sides of a coin. It is the key to the harmony between humans and nature and a sustainable growth in the future. Although China had its first environment document in 1973 and other documents in the 1980s and 1990s, those rules were not enforced. The rapid growth in the last thirty years was accompanied by high energy-consumption and high pollution. It sacrificed a green environment. In recent years, the government has started putting much effort in energy saving. Between 2006 and 2008, China closed thermal power plants of 34 million kilowatt, 60.59 million ton capacity of smelted iron production, 43.47 million tons capacity of steel production, and 0.14 billion tons capacity of cement production. Coal consumption was reduced to 69% of total energy consumption in 2008 from 76% in the early stage of reform (NBSC, 2009).

Since the 1990s, China has stressed green investment and enforced environmental protection laws. The government established a new department of environmental protection in March 2008. According to the statistics, discharge of chemical oxygen demand was reduced 4.42% in 2008, from the year before; discharge of sulphur dioxide decreased 5.95%. In 2008, the government invested nearly 65 billion RMB in parks and trees, which was 722 times as much as early 1980s (NBSC, 2009). In the 4000 billion RMB stimulation plans of 2008, 210 billion was spent on the protective programs of environment and ecology. In last 15 years, China has cut down its greenhouse gas discharge by 4.9% (Liu, 2009). To establish a green economy, China needs more green investment in many areas.

III. Self-improvement of the China Model

In its sixty years, China spent first thirty years struggling finding its own way to survive and succeed. It nearly collapsed economically and politically. However, as part of a learning process in history, it is not unusual for a country without a model and experiences to encounter ups and downs. In order to continue its course, China needs to keep open-minded and use the mechanism of self-improvement.

First is a fast development in tertiary industry. The development of the service industry will not take place with a simple shift. It takes generations to transform that 83.5% of labor force from primary

industry to other industries. Also it is more difficult to move labor from primary industry to tertiary industry than to second industry. Moreover, in order to keep its high GDP growth, China has to devour more capital in some fast growing industries such as manufacturing and construction. However, it is an important task of restructuring the economy; and it is a solution to create more jobs and reduce the pressure of unemployment.

Second is a balance among investment, consumption and accumulation. In the first transformation, China gradually opened up its domestic market to imported foreign goods and products of foreign direct investment (FDI). In the second transformation, China needs explore both domestic and international markets for its traditional goods and value-add products. Beside exports from both Chinese companies and FDI in China, products of Chinese FDI abroad can effectively open up overseas markets, and bring more profits than exporting labor-intensive goods. A related issue is the proportion of people's income in GDP. The share of wages in GDP has been constantly going down, opposite to the fast development of economy. They were 17%, 16%, and 12% in the years of 1980, 1990 and 2000, whereas in the US, it is around 50%. Meanwhile, Chinese labor cost was only 16.89% of Mexico, 30.5% of Brazil, 34.6% of Malaysia, and 59.95% of Thailand in 2001 (Zhou, 2008). This means that government and companies collect more money through tax or interests, leaving less to individuals to consume. This phenomenon reflects the imbalance among industries and among investment, consumption, and accumulation.

Third is a further political improvement. As part of its democratic construction and self-improvement, China has already launched a movement fighting against corruption. An additional regulation was added into the legal system that acceptance of bribes with power is defined as criminal and is to be sentenced; including high officials' family members and those retired officials. As mentioned above, in Chongqing, 30 high officials and 200 and so police in its public security organs were tracked down as having connections with and corrupted by underground gangs (Chen, 2009). China's political improvement will never follow the direction along with the western democracy. It will keep its people-oriented concept by closely connecting the government's performance with Chinese people's interests. It will move slowly but definitely toward a society with more freedom. To accept both criticism and suggestions are important parts of political improvement. As Zheng (2009) points out, the development of Chinese political system is open. It conforms to its own culture, society, economy, and people's interests. If the current regime can be supported by most of its people, it has its legitimacy for its existence. It does not matter if it is called an authoritarian government.

Conclusion

The sixty-year history of China cannot allow a conclusion that the China Model is a model definitely leading to success. However, it shows that it is not a dying model but a model open to self-improvement and systematic reform. The uniqueness of the Chinese Model lies in three basic facts. First, China is the most populous country in the world. Second, China has a long history whose civilization process has never been interrupted. Third, its modernization has gone through rapid development and drastic changes within sixty years as shown in the following figures: GDP increased 77 times, more than \$3,000 per capita; revenue, 1,000 times; foreign-exchange reserves, more than

10,000 times; and world trade share reached 7.9%. China supports 22% of the world's population with 7% of the world's cultivated farmland (Zhang, 2009).

There has not been a socialist country in Marx' original meaning. Neither the former Soviet Union, nor the PRC under Mao Zedong was a Marxist socialist society. In Marx' idea, a socialist country is the next stage of human society after capitalism. It should be transformed from the capitalist society when social productivity is extremely high so that it could provide enough materials for all members of the society to live a prosperous life. But Marx did not realize that private ownership and the market economy are the basic mechanisms to bring wealth to people and their societies. Without this material foundation, Marxist socialist ownership could never exist or last. Both capitalism and socialism have a self-improvement mechanism that many theoreticians or economists could not predict.

According to the Naisbitts (2010), "in the next decades China will not only change the conditions of global economics, the Chinese model challenges the Western democracy as the only governing model capable of reducing poverty and providing the social and economic rights required." Ramo (2004) considers what is happening in China as a model for China that "has begun to remake the whole landscape of international development, economics, society and by extension, politics." Yet "the China's path to development and power is unrepeatable by any other nation." Nevertheless the China Model or the Chinese experience brought new elements to the world economy and international order.

Theoretical formation needs more time and practices, but some new and important concepts or ideas are appearing that might be the basis of a new theory. These new concepts or ideas include vertical democracy vs. horizontal democracy (the Naisbitts, 2010), moral politics vs. power politics (Ramo, 2004), pragmatic approach vs. ideological approach, performance legitimacy vs. electoral legitimacy (Zhang, 2009), peaceful rise vs. cold war thinking, etc. The new concepts and ideas explained by different scholars are waiting for a synthesizer to draw satisfactory explanations to justify themselves. The prediction of the Naisbitts can be considered as revision and supplement to Marx's socialism as Keynes did to capitalism.

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