

College of Asia and the Pacific, The Australian National University

Review

Reviewed Work(s): China's Developmental Miracle: Origins, Transformations, and Challenges by Alvin So

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China's Developmental Miracle: Origins, Transformations, and Challenges, edited by Alvin So. Armonk: M. E. Sharpe, 2003. ix + 316 pp. US\$66.95 (hardcover).

This edited book offers a multidisciplinary perspective on China's development. The chapters are by specialists in economics, political science, sociology and geography. It provides a good overview for those who wish to gain an understanding of China's developmental process—the triggering events and motivations for reforms, the political economic dynamics confronting the policy makers, societal transformations, and the numerous challenges the country faces as it inches towards a market economy. The book was written for both the novice and old China hand in mind—the former will find certain chapters heavy and tedious, while the latter will discover the analysis of some critical issues to be rather cursory.

In the introductory chapter, Alvin So purports that China has been “blessed with many legacies of the Maoist era”. The fact that China was still largely an agricultural economy in the pre-reform years, and the former Soviet Union predominantly industrial, has meant that China could grow by simply reallocating labour from low-productivity agriculture to high-productivity industry, though the productivity of the industrial sector had to improve in order to achieve economic growth. Looking forward, So suggests China faces four key challenges: (i) continuation of economic reforms while bad loans are mounting and a debt crisis looming; (ii) the impact of globalization and the accession to the WTO on the competitiveness of local industries; (iii) appeasement of the losers in the reforms and those disadvantaged by increasing economic liberalization; and (iv) hegemonic rivalry, particularly by the US, that China's spectacular economic performance in the past twenty years has induced.

As the book's subtitle suggests, the book is organized into three sections—origins, transformations, and challenges. The “origins” of reforms are mostly economic in nature, namely the transformation in economic institutions, along with improved incentives that have encouraged peasants to produce more and workers to work harder. The authors have provided fascinating accounts of the mechanisms and logics that explain improved economic performance. Yi-min Lin gives an excellent literature review of the multitude of factors driving economic reforms as well as the notable variations in the pace and depth of reforms across sectors, regions and institutions. Lin attributes the emergence of non-state sectors such as the township and village enterprises and private or semi-private enterprises to the increased competition in product and factor markets that rewards those who make efficient use of resources and penalizes those who do not.

Bringing the issue of “incentives” one step further, James Kung critically analyses the role of property rights in rural reforms. He notes that the household responsibility system that has been instituted since 1978 leaves the farmers to decide for themselves how land and labour should be employed. This has encouraged more efficient allocation of resources by allowing the farmers to earn an income commensurate with their efforts, and hence contributed to the surge in

agricultural output from 1978 to the mid-1980s. However, under such a system, farmers are still *not* legal owners of the land. The communal nature of property rights in farmland, Kung argues, is responsible for the flattening of output growth since the late 1980s for two reasons. First, it discourages land-specific investments such as application of organic fertilizers that preserve soil fertility in the long run. Second, the absence of transfer rights, such as the right to rent out land, restricts the movement of labour from farms to the higher-productivity off-farm sector, a process that helps absorb rural surplus labour. However, Kung cautions against the rush to massive privatization in rural China, as evidence suggests that lack of ownership and transfer rights have not prevented farmers from engaging in off-farm activities, inasmuch as this provides a higher income.

The chapters that deal with “transformations” appear to be comparatively lackluster. Nonetheless, Kam Wing Chan provides an interesting account of the role of rural-urban migration in the development process. He notes the polarization in the social and economic characteristics of *hukou* and non-*hukou* migrants. Chan argues, though, that rural-urban migration by non-holders of urban *hukous* has contributed to growth of both the rural and urban sectors. On the one hand, out-migration helps siphon off rural surplus labour and thus raises labour productivity in the rural sector; on the other hand, the supply of migrant labour helps sustain burgeoning urban economic activities, ranging from labour-intensive manufacturing to the low-skilled end of the service sector. In addition, the rural sector benefits from remittances from the cities, a valuable source of income that can contribute to investment in farm activities.

In the opening chapter on the “challenges” of reforms, Carsten A. Hotz and Tian Zhu offer an illuminating rationalization of the intertwined financial problems that confront the Chinese policy makers. If one reads between the line, the authors appear to suggest that to untie the knot, China should avoid taking the Western prescription of the “big bang” approach, for it might lead to an overnight collapse of the system. Reforms to the state-owned enterprises (SOEs) have meant an overhaul of the social security system, since the social security responsibilities that previously fell to the enterprises have to be transferred to other institutions, such as the provincial-level pension, medical and unemployment insurance systems. These institutions are finding it increasingly difficult to cope with the skyrocketing number of laid-off workers. They estimate that the debt/GDP ratio is close to 50 per cent, since the government has become the guarantor of bonds issued by the asset management companies that bought non-performing loans caused by the bankruptcy of SOEs.

Richard Madsen and Suzanne Ogden explore the issues of governance, individual rights and other important elements in the development of a civil society. Madsen argues that the Party’s response to the canonization of 12 martyrs by the Vatican reveals that the state not only has inadequate control over the populace’s behaviour, but is also losing its ability to represent people’s aspirations. The Party has been trying to inculcate what Madsen terms “pontifical nationalism”—top-down loyalty, with the state insisting on being the sole arbiter and judge of the content of nationalistic sentiments. Suzanne Ogden disputes that. She argues that the Western notion of “individual freedom” is foreign to the

Chinese—“Nationalism has been a collective seeking of recognition and face, and an individual’s value has been derived from the value of the collectivity. For this reason, the Chinese people seem to have been more willing to make sacrifices for the strength of the national community than for their own individual freedom” (p. 225). The development of “communitarian freedom” in China, though lacking an individualistic element, can be seen as a “slow transition to soft authoritarianism”. If East Asian societies such as Japan, Taiwan and South Korea could make the transition over time to civil societies, the author questions why China is not able to replicate the process.

A major shortcoming of the book is the inadequate attention it pays to the “transformations”. Readers are presented with excellent accounts of the origins of reforms, and fascinating explorations of the challenges to come, but are left wondering about the missing link—what happened over the past twenty years? Aside from the migration dimension that Kam Wing Chan has explored, there is little mention of how the economy has transformed over time, with changes in the industrial structure, income distribution and regional development; the evolution of the legal system; and reforms to the political system or lack thereof. Some of the chapters in the “transformations” section, such as the chapter on economic and social integration between Hong Kong and the Pearl River Delta by George Lin, and on women’s political participation by Ping-Chun Hsing, appear rather perfunctory, either because they lack depth or rely heavily on anecdotal evidence.

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Accounting in China in Transition: 1949–2000, by Allen Huang and Ronald Ma. Singapore: World Scientific, 2001. xiv + 122 pp. US\$28.00 (hardcover).

This book provides an outline of the changes over time in Chinese accounting practices since the birth of the People’s Republic in 1949. The decades since then are divided into two distinctive periods: Mao’s China (1949–1978) and Deng’s China (1979–2000). While such a classification is debatable, it offers a clear-cut way to understand the changes in China’s economic and accounting systems.

The authors have opted for breadth rather than depth of coverage. The book looks at all the major events and topics one would expect to find. The first part of the book, on accounting in Mao’s China, examines accounting in the period of the PRC’s establishment (Chapter 3); during the Great Leap Forward (Chapter 4); in the period of recovery (Chapter 5); and during the Cultural Revolution decade (Chapter 6). The second part covers the transformation of accounting in post-Mao China. This second part is more interesting as it extends the discussion to a wide range of China’s economic and enterprise reforms and related accounting reforms undertaken over the past quarter century. Much progress has been made since 1979, including the transition of accounting systems from the old Soviet model to the western model, with the introduction and incorporation of international