1 Introduction

"The extent to which the state was responsible for the economic 'miracles' of East Asia is a matter of considerable debate, of course, but what is more important [...] is that a great number of Chinese policy-makers believed it to be true in the early 1990s." (Eric Thun)

1.1 The context - putting China in perspective

"Beijing, not Washington, increasingly takes the decisions that affect workers, companies, financial markets and economies everywhere." 2 This statement can be found at the beginning of a special report on China and the world economy issued in The Economist. Not every economist would agree with this statement, especially if it is to be interpreted literally. However, there exists broad agreement that during the last two decades, China has become one of the key players in the world economy.

In 1978, the Chinese government began to shift its focus from political struggle to economic development. Compared with the economic transitions initiated in the early 1990s in several states of Eastern Europe and in parts of the former Soviet Union, China’s approach to economic reform appears to offer crucial advantages. Since the introduction of its opening up strategy China has experienced rapid economic growth. The compound annual growth rate (CAGR) of China’s Gross Domestic Product (GDP) was 16.3 percent between 1986 and 2006.3 Its robust economic growth, which brought the country to the status of the fourth largest economy in the world in 2005, has dramatically reduced poverty.4 More than 400 million people have been lifted above the 1 United States Dollar (USD) a day poverty level in the last 20 years.5

Chinese companies are competitive global players in many industries, especially those that are labor intensive. According to Shenkar (2005), "China-based factories make 70 percent of the world’s toys, 60 percent of its bicycles, half of its microwave ovens and one-third of its television sets and air conditioners etc." 6 In some other product categories, such as textile and garments, China's share has been held back by quotas and tariffs. However, these barriers to trade have been released after

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3 Refer to China Statistical Yearbook (2007).
4 In 2007, the Economist Intelligence Unit wrote: "China will very soon (if it has not done so already) overtake Germany as the world's third largest economy at market exchange-rates". Refer to Economist Intelligence Unit (2007), "China Economy: Pushing Past Germany", Internet Edition, reviewed 02.11.2007.
6 Refer to Shenkar (2005), p. 3.
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China joined the World Trade Organization (WTO) in 2001. Concerning the product mix, China is increasingly leaving the state of the world's workbench – a rising share of capital- and technology-intensive production indicates China's march up the value chain. To give an example, at the International Motor Show in Germany in 2005, Chinese automotive (later: auto) manufacturers presented their models for the first time.

1.2 The state of research and aim of the study

After the collapse of communism in Eastern Europe and subsequently in the Soviet Union, political democratization and economic liberalization were widely regarded as recipes for prosperity by neoliberals in the West during the 1980s. However, the economic success of the East Asian states (which were almost all former Stalinist countries) challenges the fundamental principles of liberal political economy which emphasizes minimum state intervention for economic development. The East Asian development path has posed the question of why some states such as Japan, South Korea (later: Korea) and Taiwan have been able to play a more effective role than others (such as Eastern Europe and Russia) in coordinating industrial change.7

Various economists and political scientists, among them advocates of statism (statists) such as Johnson (1987), as well as neoliberal institutions like the World Bank (1993), argue that an activist state has underpinned the growth of the East Asian miracles. Government policies and bureaucracies have not only promoted economic growth, but have been essential to it.8 However, as most poorly performing economies in Latin America, Africa and also Asia have activist states too, state activism per se does not contribute to growth. If governmental activism has supported the economic growth of the East Asian developmental states, one has to ask how governments do effectively promote growth, and which industrial policy instruments they use.

A range of studies analyze the positive role of the state in economic transformation. Stiglitz (2002) has analyzed how the governments of developing countries can improve the outcome of economic transformation by well-chosen interventions. White and Wade's (White and Wade 1988; Wade, 1990) concepts of the "strong state", Johnson's (1987) study of "administrative guidance", Amsden's (1989) approach to "getting prices wrong" and Evans' (1995) analysis of "embedded autonomy" have become classics in the field of East Asian transformation.9

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7 In some analyses also Singapore, Hong Kong, Malaysia and Thailand are regarded as East Asian developmental states.
8 For further information refer to Johnson (1987) and the World Bank (1993).
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While the economic slowdowns and the financial crises in much of Asia in the late 1990s abated some of the blind admiration of the "East Asian Miracle", China's economic growth in the post-Mao period has revived attention on the positive role of the state in promoting transformative economic development. China's industrialization has been in the focus of academics and policy-makers alike; however, the reasons behind its economic development are still poorly understood. China's current industrial policies have various unique features. The country has confounded free-market theorists' expectations in many ways, because its economic policies and public institutions do not conform to orthodox prescriptions for creating the conditions for high growth such as minimal government intervention and private companies. The clear overlap of economic and political spheres in China inevitably goes back to the centuries-old theoretical debate on the appropriate role of the state. Accordingly, one of the most interesting questions in the field of economics and political economy, and the central interest in this analysis, is whether the rapid growth of transforming China can be attributed to the emulation of certain mechanisms of the East Asian transformation. This results in the research question: Is China the new developmental state?

As China's development, similar to that of the East Asian Newly Industrialized Countries (NICs) (Korea, Taiwan, Singapore and Hong Kong, often referred to as "four little dragons"), contradicts the expectations of neoutilitarian arguments, and is in measurable terms of economic development and social change unprecedented in speed, scale and scope, it is surprising that almost no analysis of China has been conducted within the context of the East Asian developmental state theory. The studies that have analyzed the developmental role of the Chinese state are, among others, Breslin (1996), Nee et al. (2005), So (2003), Unger and Chan (1995, 1996), White (1988, 1991), Xia (2000) and Zhu (2004). While these studies have paid attention to China incorporating the East Asian developmental state concept, none of them provides a clear-cut specification of the defining institutional features and economic policies of a (Chinese) developmental state. They rather focus on specific criteria and single determinants of China's transformation approach.

This study's focus is on China's development path and the role of the state in its transformation process. China's economy can only be understood if the concomitance of economic development (industrialization) and economic transformation (from planned- to market-economy) is taken into consideration. This is done by specifying conditions and measures that a developmental state has to fulfill in order to transform its backward domestic companies into internationally competitive players. As a point of reference, the Japanese, Korean and Taiwanese models of development are examined. China's development approach is compared with these former developing countries' transformation in order to come to an assessment of the

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uniqueness of the Chinese model of economic development and thus fill the academic gap. Hence, the study is relevant to the “transformation theory”, general questions on development economics, and the current policy debate about a role model for transforming countries’ reform approaches.

Moreover, not only the uniqueness of the Chinese model of economic development is in the focus of this study, but also its effectiveness. In order to gain insight into the effectiveness of the Chinese model of economic development, the study uses the auto industry as a means of understanding the performance outcome of state-guidance. The development of the auto industry is a classic example of China’s efforts to transform inefficient and technologically backward Chinese companies into powerful national and international champions. This effort began in the 1980s, long before similar efforts in other industries, when the auto sector was chosen as a “pillar” industry and became a primary target of government industrial policy.

Until 1978 there had been almost no passenger car production in China, and cars were the prerogative of a relatively small number of high-ranking officials. Since then, many of the world’s most powerful original equipment manufacturers (OEMs) and suppliers have staked their future on the Chinese auto industry. It is thus important to understand its evolution in the context of China’s economic development and transformation:

- The auto industry has traditionally spearheaded organizational and industrial change affecting all other industries, because sophisticated products have to be manufactured in high volumes.
- The auto industry is playing an important and unique role as a system integrator of a number of important other industries (electronics, steel, glass). Products manufactured by these and other industries are used in the design and production of modern autos.
- Although the analysis is sector specific, it is representative of sectors that are technology- and capital-intensive, and in which foreign direct investment (FDI) is motivated by market access rather than cost-cutting. It is possible to investigate problems not only of industrialization in general, but also of economic integration and technology transfers, because the Chinese auto industry has encompassed domestic and foreign economic and decision processes.

This is not the first empirical analysis based on the Chinese auto industry. Studies on the Chinese auto industry have been conducted by Mann (1989), Harwit (1995, 2001), Thun (2004a, 2004b, 2006), and Noble et al. (2005). However, none has pursued a comprehensive analysis of the Chinese auto industry, examining its...
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development approach according to the criteria that characterize the East Asian developmental states’ economic transformation.

1.3 Methodology and available sources

The underlying premise of this study on China is that industrial development is multifaceted. It is well known that focusing on only one aspect of the process of industrial development may result in misleading conclusions and simplistic policy recommendations. It is hence essential to consider multiple dimensions of industrial development in order to discover whether China is the new developmental state. Accordingly, various methods are applied within this study: First, the study uses a secondary analysis approach to gain general information on the Chinese model of economic development, evaluating secondary statistical data as well as abundant material of Chinese and international authors, institutions and organizations. Second, an empirical analysis of the Chinese auto industry is conducted. Insights into state-guidance in the auto sector come from secondary analysis, as well as qualitative and quantitative analysis. Thus, theoretical arguments can be underpinned by empirical evidence. The period of examination is from China’s early reform years (late 1970s) until November 2007.

(1) Secondary analysis of the Chinese model of economic development:

Secondary analysis is the (re-)analysis of data. Pre-existing data is used either to investigate new research questions or to re-examine primary study questions for purposes of corroboration. Information is gained from the (re-)analysis of the following sources with special focus on the subject:

- **Official documents of Chinese political agencies and leaders:** The research is based on the examination of official documents from Chinese sources. Most official regulations, laws and statements are available in English. Due to the evaluation of these documents, political and economic indicators that are decisive for China's reform process can be isolated. Furthermore, the review of official documents from the beginning of the reform process until 2007 provides an insight into the characteristics of the Chinese transformation approach in the course of reform. Among those documents are statements from China’s political leadership, five-year plans and industrial policy documents of the National Development and Reform Commission (NDRC), regulations of the Ministry of Commerce, and the homepage of the Chinese central government etc. Furthermore, on the local government level,

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12 The theoretical foundation of this study, the state’s role in (East Asian) economic development, is based on literature review. The review describes, summarizes, evaluates and clarifies this literature. It gives a theoretical base for the research. Works which are irrelevant are discarded and those which are peripheral are looked at critically.

13 Refer to Glass (1976), pp. 3-8.
documents on foreign investment schemes which are available on the homepages of e.g. the municipalities of Beijing and Shanghai, are evaluated.

- **Official statistics of the National Bureau of Statistics of China:** The evaluation of statistical yearbooks provides relevant information. Various issues of the “China Statistical Yearbook”, the “China Compendium of Statistics”, the “China External Economic Statistical Yearbook” and the “China Statistical Yearbook on Science and Technology”, as well as the “Beijing Statistical Yearbook” and the “Shanghai Statistical Yearbook” are used. China’s membership in international organizations such as the World Bank and the International Monetary Fund since the beginning of the 1980s, has generally contributed to the qualitative improvement of statistical data. Moreover, international classifications have been adopted successively and an approach towards international standards can be registered.\(^\text{14}\) Nevertheless, different reports (such as Holz 2001, 2005) are skeptical of the quality of Chinese official statistical data.\(^\text{15}\) The problem of official data inconsistency has directly affected the results of commercial, academic and policy studies alike. Due to these reasons, this study covers national development trends. The inaccuracy of specific data may be accepted, because the reliability of official data can be verified by comparing it with alternative sources. In consequence, the data used is suitable for the method and aim of this study.

- **Articles from the national and regional Chinese daily press:** The freedom of the press is still restricted by the Chinese central government. Accordingly, articles from the Chinese national press might be colored by political statements. Qualitative improvements of press statements can be seen in recent years, however. Furthermore, the daily press is the only medium which allows the researcher to incorporate up-to-date developments as well as the latest reform results. For this reason, the researcher uses various internet publications from relevant Chinese and other daily presses.

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\(^\text{14}\) Refer to Opper (1999), p. 28.

\(^\text{15}\) First, some data such as data on GDP may have been intentionally misreported. Second, a quantity of data is of dubious economic meaning due to the way in which it is constructed (for example, data on fixed assets and farm employment). Third, economic variables and enterprise categories have frequently been re-defined without revision of the variables or category names. This has caused statistical breaks, as in 1993 and 1998 for reference and severe comparability problems in both time series and cross-sectional data. Fourth, detailed data that is in line with Western national income accounting standards is available for the 1990s. However, inconsistencies due to periodic adjustments still abound. While far less data is available for the 1980s, when industrial statistics were constructed in accordance with the Material Product System, this data is somewhat more consistent. Fifth, enterprises and local governments alike have varying incentives to manipulate and misreport data which obviously restricts its quality. Enterprises for reference may underreport value added in order to avoid tax payments. However, the National Bureau of Statistics is working hard to reduce its reliance on questionable data provided by other government departments, and to bridge the central-local divide. Refer to Holz (2002), p. 52 and Holz and Lin (2001), p. 30 ff. For further information refer to Rawski (2001).
Although remarkable information can be gained from the evaluation of these sources, the basis of the analysis is extended by sources from various international authors, institutions and organizations. The analysis concentrates on scientific publications such as books, reports, review articles and other reference-type materials.\textsuperscript{16} International secondary literature is analyzed to complement Chinese secondary statistics in English language and to counter biased, politically or ideologically colored interpretation of Chinese sources.

\textbf{(2) Empirical analysis of the auto sector (incorporating a mixed methods approach):}

In social research, the term “triangulation”\textsuperscript{17} (or mixed methods approach) is used to refer to the observation of the research issue from at least two different points.\textsuperscript{18} The application of different methods becomes essential in the study of complex fields of investigation. Triangulation allows one to exceed the limitations of a single method by combining several methods and giving them equal relevance. Thus, a highly synergistic combination of data types can be achieved. Only the variety of different methods reveals the necessary range of information to gain a complete picture, and to validate all items of information.\textsuperscript{19} Triangulation allows multiple confirmation of the findings of secondary analysis, as well as qualitative and quantitative analysis (refer to Figure 1).

\textbf{Figure 1: Triangulation.}

\begin{center}
\begin{tabular}{|c|c|c|}
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\textbf{Research topic: Chinese auto industry} & & \\
\hline
\textbf{Empirical analysis: Triangulation (mixed methods analysis)} & & \\
\hline
\textbf{Secondary Analysis} & \textbf{Qualitative Analysis} & \textbf{Quantitative Analysis} \\
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\textbf{Units of analysis:} Evaluation of secondary statistical data (e.g. Automotive Industry Yearbook) as well as material of Chinese and international authors, institutions and organizations. & \textbf{Units of analysis:} Expert interviews with representatives of OEMs and suppliers as well as Chinese, German and European institutions. & \textbf{Units of analysis:} Statistical evaluation of the 2001 World Bank sample including 1,500 Chinese companies (216 auto companies). \\
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\end{center}

\textbf{Multiple confirmation of findings}

Source: Own illustration.

\textsuperscript{16} This mainly applies to data and regulations from the early reform period.

\textsuperscript{17} For information on “triangulation” refer to Webb et al. (1966), Smith (1975) and Denzin (1978).

\textsuperscript{18} Refer to Flick (2004b), p. 179. For further information refer to Flick (2004a) and Jick (1979).

\textsuperscript{19} Refer to Flick (2005), Internet Edition, reviewed 05.02.2006.
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Figure 1 shows that the empirical analysis of the auto sector uses a secondary analysis approach that concentrates on the re-analysis of industrial policy documents, laws and regulations with special focus on state-guidance in the sector. Moreover, secondary statistics from the China Automotive Industry Yearbook 2006 and various issues of the China Statistical Yearbook provide a fact base for conclusions about the sector’s development since the early reform years.

In addition to secondary analysis, qualitative analysis reveals the dynamic process of industrial development as well as the role of changing government policies and institutional settings. Expert interviews were conducted in China. Interviews provide targeted and directly-focused approaches, and give insightful causal details on the research topic. Among the experts are managers of foreign auto companies (OEMs and suppliers) as well as experts from German, Chinese and European (government) institutions located in Beijing and Shanghai. The qualitative researcher uses complex reasoning that is multifaceted, iterative, and simultaneous. The qualitative analysis focuses on the institutional framework and the national industrial policy design for the auto sector.

The quantitative analysis uses data from the World Bank survey “Competitiveness, Technology and Firm Linkages in Manufacturing Sectors” (2001). The sample includes 1,500 Chinese firms (of which 216 are auto companies). The statistical evaluation of the survey data bases conclusions on the state-directed development approach in the auto sector on quantitative evidence.

1.4 Line of action

The analysis of the Chinese development path is presented in five chapters. The state’s role in economic transformation with respect to the East Asian developmental states is analyzed in Chapter 2. This serves as the theoretical foundation for the analysis of the Chinese economic transformation approach (Chapter 3) and also provides a benchmark to assess its effectiveness on the basis of the Chinese auto industry (Chapter 4). Chapter 5 answers the question of research, and gives lessons on other transforming countries’ development paths.

The study analyzes the subsequent details: Chapter 2 outlines the theoretical debate on the appropriate role of the state, and thus establishes the theoretical groundwork for this study. The chapter examines the economic and institutional arrangements for development in three East Asian countries, namely Japan, Taiwan and Korea. The analysis is based on the classic works on the state’s role in economic development in general, and the most influential studies on the developmental state theory in particular. The rapid economic growth of the East Asian economies raises the question of the policies and institutional factors that contributed to growth.

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20 Although the interviews are essential evidence, interview data can be corroborated with additional information when necessary. Refer to Eisenhardt (1989b), p. 538 and Yin (1994), p. 86.

21 Refer to Creswell (2003), p. 182.
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analysis of the three East Asian states suggests that their development approach should not be perceived as a unique, cultural or regional phenomenon, but as an alternative model of development that offers an important policy option for developing countries. From this, a model of East Asian development is created. The East Asian Developmental State Model serves as an analytic research framework. The model includes conditions and measures a developmental state has to have and implement, respectively, in order to accelerate economic growth and transformation.

In Chapter 3 the model of East Asian development is used as a basis to analyze China's development path. First, the question of whether China fulfills the conditions "dictated" by the East Asian Developmental State Model is explored. As this can be confirmed, the Chinese transformation path since 1978 is analyzed with respect to each criterion of the model. The focus is on determining the defining elements of the Chinese development strategy. The mechanisms used by the Chinese government to promote transformative economic growth are clarified and specified using a secondary analysis. Thus, the question is answered as to whether China is a mere follower of the best practices of the East Asian states or whether the Chinese model of economic development is unique. The distinctiveness and innovative character of the Chinese model of economic reform unveils similarities and differences between the East Asian developmental states' and China's approach to economic development.

The empirical analysis of Chapter 4 focuses on the development of the Chinese auto industry, and uses a mixed methods research approach. The chapter examines whether the development of the auto sector reflects the uniqueness of China's transformation strategy. The policy and bureaucracy framework of the auto industry is analyzed to identify the inherent characteristics of the Chinese model of economic development in the auto industry. Only by starting from a full picture at the macro level of the auto industry in China (analysis of the institutional settings and the policy documents guiding the sector's development), can appropriate in-depth analyses at lower levels (expert interviews, World Bank sample, secondary analysis on firm performance etc.) be conducted in order to obtain convincing evidence. The chapter, moreover, analyzes the performance outcome of China's development approach to the sector. Secondary statistics, as well as information gathered from qualitative and quantitative research, form the basis of evidence. The study intends thus to fill the gap between theoretical and empirical approaches and increases the "persuasiveness" of evidence.

22 When analyzing development strategies as the object of analysis, the following methodological problems arise: First, "strategy" is usually associated with clearly intended state action. As strategies may also emerge by default, trial-and-error or compromise, imputing a central design requires caution. "Strategies" often take years to crystallize and are often plagued by internal inconsistency. Second, strategies generally consist of packages of policies, and different policies involve different political cleavages and conflicts. It is thus useful to disaggregate "strategies" where possible. Third, development strategies are not unambiguously given by factor endowments, but also by natural endowments such as interest groups seeking to maximize their rents. Those usually influence the decisions of policy-makers. These limitations of analyzing strategies have to be considered when conducting this study. Refer to Haggard (1990), p. 23.
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*Chapter 5* draws conclusions from the previous analysis on China’s economic development, and assesses whether its development path corresponds to that of the three East Asian states. Answers are given as to whether China is the new developmental state, and whether China’s distinctiveness has been conducive to economic growth. The findings seek to help economists and political scientists, policy-makers and businessmen to understand China’s transformation process with its conditions, institutional settings, industrial policy mechanisms and limitations. This contributes to fact-based decision-making at both the industrial and national level. The analysis concludes with broader lessons for the role of an activist government concerned with economic development and the transition from a socialist economy. The study’s line of action with its detailed design is illustrated in Figure 2.

**Figure 2: Line of action.**

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Source: Own illustration.