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# How Neoliberal Is China's Reform? The Origins of Change during Transition

Fulong Wu<sup>1</sup>

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**Abstract:** A UK-based geographer and specialist on China's urbanization reviews changes occurring in China during its market transition through the prism of neoliberalism. More specifically, by reviewing the recent literature on neoliberalism, the author searches for parallels between that approach and the political-economic, historical, and social developments associated with market transition in China (e.g., land and housing commodification, rural to urban migration, changes in access to education and health care). The question of to what extent (and in what ways) China's reforms—featuring an expanding role for the market—can be considered neoliberal is conditioned by the continuing importance and involvement of the state in all spheres of activity. *Journal of Economic Literature*, Classification Numbers: E660, H110, P210, P250. 1 figure, 72 references. Key words: neoliberalism, neoliberalization, China, political economy, market re-orientation, authoritarian state, Chinese reform, developmental state, accumulation, Cultural Revolution, Tiananmen event, Deng Xiaoping.

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## INTRODUCTION

A popular (and grossly simplified) working definition of neoliberalism would describe it as “a market-driven approach to economic and social policy based on neoclassical theories of economics (aka capitalism) that maximize[s] the role of the private business sector in determining the political and economic priorities of the state” (e.g., Neoliberalism, n.d.).<sup>2</sup> According to Harvey (2005, p. 1), China has indeed embraced neoliberalism, characterizing its launch of sweeping economic reforms “... in 1978–80 as a revolutionary turning-point in the world's social and economic history” that transformed “... China in two decades from a closed backwater to an open centre of capitalist dynamism with a sustained growth rate unparalleled in human history.”

And indeed, at first glance, the changes to China's economy and society since 1979 seem to suggest a neoliberal trajectory. Since the economic reform, China has seen the significant advance of the market (Bian and Logan, 1996) and phenomenal change in social welfare provision (Duckett, 2004). Public housing has become a residual sector (Wang and Murie,

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<sup>2</sup>Neoliberalism more broadly has been interpreted in cultural studies as a dominant (Western) ideological paradigm according priority to such goals as economic efficiency, consumer choice, and individual autonomy, thereby shifting responsibility from governments and corporations onto individuals (ibid.). The paradigm is elaborated in greater detail later in the paper.

2000), and housing reform seems to follow neoliberal principles (Lee and Zhu, 2006). Home ownership has increased significantly due to the privatization of public housing and the sale of commodity housing (Li and Yi, 2007), and due to rising housing prices the problem of affordable housing has now emerged in China. Reforms in health care also have shifted the burden of payment increasingly to individuals (Duckett, 2004; Li and Wei, 2010), and in education, although compulsory free nine-year education continues to be provided, the inflation of tuition and costs at universities has virtually turned higher education into a form of private education. In rural areas on the outskirts of large metropolitan areas, rapid urban expansion has created landless farmers (Lin and Ho, 2005; He and Wu, 2009; Lin, 2010) and generated widespread conflict over the land conversion process. Thus, based on these examples, one might argue that China's reform indeed manifests some neoliberal tendencies.<sup>3</sup>

The Chinese thinker Qin (2003, p. 110) has observed that many Western economists labor under the impression "that the Chinese transition is more gradual and socialist than the East European," despite the reality that it has been proceeding as "relentlessly in China as in Eastern Europe." Nonetheless, most accounts of the spread of global economic and social phenomena to the country (including much of the literature to date arguing that China's reforms are neoliberal) contain references to China's exceptionalism. According to Harvey (2006, p. 34), for example, China is an outcome of a "particular kind of neo-liberalism interdigitated with authoritarian centralized control," or—paraphrasing Deng Xiaoping's concept of "socialism with Chinese characteristics"—"neoliberalization with Chinese characteristics."

However, it is still controversial to regard China as a neoliberal state (Ong, 2007; Huang, 2008; Nonini, 2008), as a vast literature describing the significant role of the state in economic development and governance indicates otherwise (e.g., Zheng, 2008; Pei, 2006; Logan and Fainstein, 2008). To some, such as Ong (2007, p. 4), the very combination of state authoritarianism with neoliberal policies makes it difficult to fit China within Harvey's neoliberal template, although she and others (Ong, 2006; Zhang and Ong, 2008; see also Yan, 2003; Hoffman, 2006) conclude that that it is still possible to describe China's market transition as on a course of neoliberalism. Similarly, Liew (2005) believes there is only partial neoliberalism because of the institutional legacies of the Party and socialism.

Nonini (2008, p. 145) is even more skeptical, arguing that contemporary China is "... not becoming 'neoliberal' in either a strong or weak sense, nor undergoing a process of neoliberalization, but instead shows the emergence of an oligarchic corporate state and Party whose legitimacy is being challenged by disenfranchised classes, but is still in control through its efforts at modernization." The primary reason is that even the weaker form of neoliberalism, namely the extension of consumerist values and markets unregulated by the state, has little purchase for China (Nonini, 2008). Wang (2008) too dismisses the usefulness of neoliberalism, but unlike Nonini (2008) argues that the Chinese state has recently adopted a wide range of social policies and is moving toward a more benevolent role in integrating society.

Harvey (2007) later emphasized that the essential feature of neoliberalism is not to free the market or follow market logic but rather to achieve "class restoration," an argument that reveals the crisis of legitimization arising from market development and thus narrows the difference with Nonini's (2008, p. 172) anthropological studies on how a small oligarchic group may "privilege some while marginalizing others" through the "regime of governance."

Given Harvey's (2007) later emphasis on class restoration as an essential feature of neoliberalism, one may wonder why, through China's profound market re-orientation, the

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<sup>3</sup>According to the Chinese New Left (e.g., Wang, 2003), the immense market advance has created serious social tension and instability.

Chinese Communist Party (CCP) has seemingly turned to serve the interests of an “opposing bourgeoisie class.” This paper argues that market re-orientation in China is a societal modernization project and is consistent with the CCP’s effort to modernize China more than a half century ago, albeit in a dramatically different way. It briefly reviews the political economic, historic, and social origins of market transition as prelude to a discussion of the following questions: In what ways can the post-1978 market transition in China be considered neoliberal? Do the resulting answers improve our understanding of China’s dramatic transformation during this period?

### NEOLIBERALISM REVISITED

Controversies exist in the general literature about neoliberalism. Recently, the use of “neoliberalism” has been questioned in geographic and political studies.<sup>4</sup> It is even argued that chasing neoliberalism is futile, as “... something we know does not exist as such, but the idea of whose evidence allows our local research finding to connect to a much bigger and apparently important conversation” Castree (2006, p. 6).

On the other hand, some scholars believe the need is to refine the meaning of, rather than to discard, neoliberalism. This is done through a series of clarifications. Brenner and Theodore (2002) argue for the need to distinguish between neoliberalism as an ideology and a practice, advocating a focus on the latter as “actually existing neoliberalism.” This has utility for understanding China’s market transition in particular.

Peck and Tickell (2002) have suggested a second refinement: the need to distinguish different historical phases of neoliberalism, and particularly “roll-back” and “roll-out” stages. The first is characterized by “destruction and discreditation of Keynesian-welfarist and social-collective institutions” and the second by the emergence of “neoliberalized economic management and authoritarian state forms” (ibid., p. 38). This formulation is somewhat difficult to apply to China’s market transition, as deregulation and re-regulation are sometimes intertwined. In a late-socialist context, to roll back, the state must roll out at the same time. In other words, the state is both the destroyer and market builder, creating a “modern” state out of its totalitarian and parental role in the past.

Third, Ong (2007) and others (Zhang and Ong, 2008) argue the need to distinguish between neoliberalism at the nation-state scale and market-based governance at the local scale. A focus on type of governance is therefore useful to understanding China’s market transition. Although much entrepreneurialism occurs at the local level (He and Wu, 2009), market re-orientation has been a political project of the state. Thus, in order to understand the political-economic origins of China’s transformation, the nation state is still a critical scale.

Fourth, Harvey (2007) emphasizes the need to distinguish between ends and means, with the essential feature of neoliberalism being not its end (the free market) but its means (“class restoration”). For China, Harvey (2007, p. 41) suggests that “though it has been effectively disguised, we have lived through a whole generation of sophisticated class struggle on the part of the upper strata to restore or, as in China and Russia, construct class dominance.” In China, as I argue in this paper, this is not a process whereby the state serves a new bourgeoisie class, but rather one whereby it maintains its legitimacy. Market re-orientation is a fix to consolidate the state’s position, although in the process, class interests are realigned. In this

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<sup>4</sup>For example, Leitner et al. (2007, p. 5) argue for decentering neoliberalism as a hegemonic discourse, because “keeping neoliberalism at the centre of critical analysis can reify its ubiquity and power, even when the intent is critique.”

context, therefore, neoliberalism (or at least its theoretical utopianism) has served more as a system of justification and legitimization for state policy.

When viewed as a political project, neoliberalism is not necessarily incompatible with state authoritarianism. As Harvey (2006, p. 34) observes, in "... much of East and South-East Asia—in South Korea, Taiwan, and Singapore most noticeably—this connection between dictatorial rule and neoliberal economics had already been well established." The implication is thus that there is not any one standard form of neoliberalism or "... any simple 'export' of neoliberalism from one hegemonic center," but rather "... a decentered and unstable evolutionary process" (Harvey, 2006, p. 41).

As illustrated by the four main points (distinctions) above, the precise meaning of neoliberalism has proven elusive even to its architects (see Peck, 2008, p. 33). But this is of secondary importance to the question of whether the practice of neoliberalism (actually existing neoliberalism) helps explain some of the basic features of China's changes under market re-orientation (the key theme of ongoing political economic and social changes in China). The following section, based on a diverse body of empirical evidence, provides a political-economic, historical, and social explanation of the rationale underlying the Chinese state's adoption of market re-orientation (neoliberalization).

## ORIGINS OF MARKET RE-ORIENTATION

### Political-Economic

As a result of effective extraction of surplus capital under state socialism, a proletarian class was abundantly present at the end of the planned economy. In fact, capital accumulation had proceeded remarkably well, at least prior to the Cultural Revolution (1966–1976). The problem thus was not the effectiveness of accumulation. Rather, effective accumulation under state socialism led to its own crisis, similar to Fordism.<sup>5</sup> More specifically, one can argue that effective accumulation supported by state-led industrialization had begun to reach its limits. The state had adopted a policy of extracting rural surplus capital to fund industrialization, whereas in the city consumption was suppressed and production prioritized. This created the problem of "underurbanization," in which the level of urbanization relative to industrial output lagged behind what was normal in developed and other developing countries (e.g., see Ofer, 1977). Opportunities for further growth in the economy were thus driven mainly by state industrial funding rather than mass consumption. State-led accumulation thus was unable to tap into a pool of idle production factors (labor in particular), which could not be combined and recycled through an economic system that possessed no alternative accumulation space.

The political-economic origin of China's market transition is thus the lack of development opportunity and investment space for economic growth that prevailed at the end of the 1970s. At a time when the newly industrializing economies in East Asia already were well along the path toward economic restructuring, China was still partially industrialized and under-urbanized,<sup>6</sup> with an underdeveloped, self-contained rural sector and an isolated, defense-led heavy industrial sector. For reformists, the primary task was to find new spaces of accumulation, enunciated by Deng Xiaoping as a "development-first approach." As widely

<sup>5</sup>The crisis of Fordism led to a flexible regime of accumulation, which in turn laid the foundation for neoliberalism (e.g., see Harvey, 2006).

<sup>6</sup>The urban population as a percentage of the total was only ca. 20 percent at the time (see Zhou and Ma, 2003; Chan, 1994, 2009).

studied, the ensuing economic reform ushered in market discipline, commodification, and an “open-door” policy to expand the space of accumulation.

### Historical and Social

Though the impetus for China’s market-oriented urban development is fairly recent, the underlying concept has a long history, originating in the desire to modernize China. Although not driven by a particular Western liberal ideology, the prevalence of the market mechanism can be understood as a reaction to the industrialized world (e.g., see Callahan, 2009; Agnew, 2010). After conclusion of the First Opium War in 1842, China became a defeated “middle kingdom” of semi-colonial status, whose intellectuals as well as social reformers strove to save from outside domination. Albeit in dramatically different ways, there was a consistent logic behind socialist revolution in 1949 and market reform in 1979: to modernize China. While differing in the approach they advocated to effect change, both Mao Zedong and Deng Xiaoping believed that profound societal change was inevitable. And at the end of the 1970s, the success of the newly industrializing East Asian economies<sup>7</sup> provided a highly visible model for China, focused on the benefits to be derived from (a) market-oriented economies and (b) linkages to globalization through export-oriented development.

The impetus for economic reform therefore stems from the desire of China’s leaders in the late 1970s to learn from the experience of the successful East Asian economies. However, the exact governance model underlying the “East Asian miracle” was not fully known to China’s decision makers at the time, and it can be argued that political-economic underpinnings of the model that ultimately emerged were shaped strongly by two important events—the Cultural Revolution (1966–1976) and the Tiananmen event (1989).

The Cultural Revolution’s detrimental effect on the Chinese economy increased receptiveness to change by increasing the public’s disillusionment with the socialist movement, which was viewed as utopian and overly ideological. The fetish for ideological purity was swept away, opening a period of pragmatism<sup>8</sup> crucial for the later deepening and spread of market reforms. Although one can certainly argue that market fetishism is itself an ideology of sorts, the development of market-oriented reform at that time was not viewed through an ideological lens.<sup>9</sup>

Ideological constraints to economic reform, however, were not completely removed until the 1989 Tiananmen event, which exposed the problems inherent in pursuing market reforms only partially (Wang, 2003). In the new quasi-market economy of the time, the market mechanism was only viewed as an instrument (to achieve specific, narrow objectives), and was not supported by necessary institutional changes in the economic system. The system of double-track prices maintained the old planned economy alongside the new market-based one, resulting in rent-seeking, corruption, and increased social inequality. Price reform led to inflation and widespread discontent that ultimately mounted to become a crisis of state legitimacy. This led to a radical re-evaluation of the role of the “totalitarian” state in an under-marketized society, ultimately paving the way to more thorough marketization launched by Deng Xiaoping’s tour of southern China in 1992.

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<sup>7</sup>In part contingent on the Cold War, which led to the opening of the U.S. market to its allies (Castells, 2000).

<sup>8</sup>Deng Xiaoping, the architect of China’s economic reform, famously advocated that “it is glorious to become rich,” that “no matter whether it is a white or black cat, as long as it can catch a mouse, it is a good cat,” and that “there is no need to ask whether [our reform] is under the name of socialism or capitalism.”

<sup>9</sup>Breslin (2006) makes the point that the reform did not begin with an ideological commitment to neoliberalism.

After this historic moment, commodification was ruthlessly and pervasively pushed throughout society. Large-scale lay-offs of redundant labor ensued in state-owned enterprises, creating a new urban underclass (Solinger, 2002), and land commodification and housing privatization accelerated. In 1998, under the impact of the Asian financial crisis, public housing provision was suspended. Accompanying these social changes was the development of entrepreneurial governance, which has been extensively documented (e.g., Chien, 2008; Walker and Buck, 2007). At the city and regional levels, a series of governance reforms were adopted, for example, the changing of boundaries and the administrative structure to strengthen the status of the central city (Ma, 2005; Zhang and Wu 2006). In newly built residential areas, property management companies have begun to assume responsibility for management, while urban governance has been downscaled (Wu, 2002) to so-called “street offices” and residents’ committees (Read, 2000; Tomba, 2005).

## HOW NEOLIBERAL IS MARKET-ORIENTED REFORM?

### State-Enforced Accumulation

As shown above, China’s market-oriented reform has its own political-economic, historical, and social origins. Harvey (2005, p. 34) suggests that the turn to neoliberalism “coincided—and it is very hard to consider it as anything other than a conjunctural accident of world-historical significance—with the turn to neoliberal solutions in Britain and the United States.” This implies that China’s market-oriented reform had its own logic and did not necessarily result from the spread of Western neoliberalism. Peck and Tickell (2007) examined the dissemination process of neoliberal thought by tracing the action of think tanks and movements of policy advisors. Although Chinese reformers did derive some inspiration from neoliberal economists, influence of the latter on the design of China’s reform policies has been limited. And even between Britain and the U.S., neoliberalism is not a coherent and coordinated project. As Harvey (2005, p. 26) observes, “it was not the United States ... that forced Margaret Thatcher to take the neoliberal path in 1979. And during the early 1980s, Thatcher was a far more consistent advocate of neoliberalism than Reagan ever proved to be.”

Rather the Chinese selectively adapted neoliberalism under the political-economic context of strong state control (Pei, 2006), and engineered its economic competitiveness based on the legacies of its socialist institutions. Thus the process of neoliberalization in China is necessarily partial (Liew, 2005). The basic feature of Chinese market-oriented reform is the advocacy of market dominance through consolidation and the development of concrete forms of governance. According to Qin (2008), market competitiveness in China is characterized by a “low liberal and low welfare model,”<sup>10</sup> built upon a specific political-economic structure of state control.

By understanding that Chinese market-oriented reform is a state-engineered process, we can also understand the reason why the state’s capacity has not diminished but rather has increased during market transition. China’s development model thus deviates from the so-called “developmental state” (Woo-Cumings, 1999; Weiss, 2000), which justifies its existence on the basis of economic development and performance. Although the Chinese state also derives legitimacy from the power of its economy and well-being of its people, the

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<sup>10</sup>“Low liberal” refers to constrained social rights and reduced freedom, whereas “low welfare” suggests reduced welfare provision that is subordinated to a market rationale.

mechanisms through which it realizes these objectives differs from that of the developmental state. The developmental state emphasizes the strategic use of industrial policies and banking support (Wade, 1990) to guide national economic growth, often in the context of late industrialization. However, during China's market transition, the state's role has shifted from that of resource distributor to active market agent. For example, the state uses its legacies, such as strong control over land, to foster a land market that incentivizes local governments to become entrepreneurial cities in land development (Lin and Ho, 2005). And through the devolution of economic decision making and new fiscal arrangements between central and local governments, it has promoted urban entrepreneurialism (Duckett, 2001; Chien, 2008). But its actions in these areas are seldom as coherent as those of a developmental state.

Accumulation is controlled by the state through the provision and combination of production factors. First, an abundance of migrant laborers is not a natural phenomenon, but rather a legacy of rural-urban dualism enforced by such institutions as the *hukou* system (Chan, 2009), constrained consumption, and artificial state pricing. The (heretofore) low costs of labor, combined with available Western markets and inflowing capital investment, have provided essential prerequisites for China's emergence as an export-oriented economy.

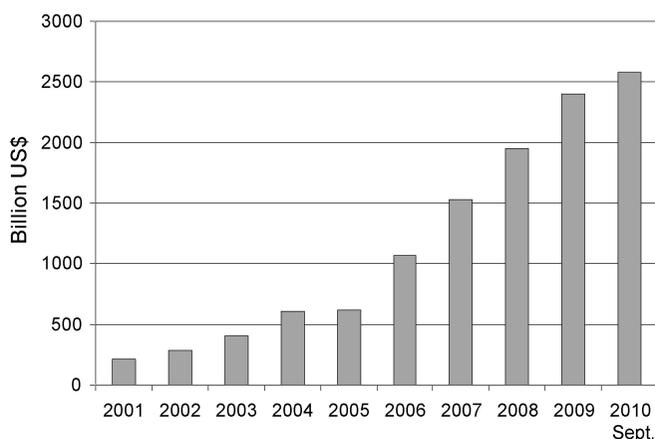
The latter prerequisite (capital inflows) has been bolstered by the aggressive campaigns of local government officials to attract foreign and overseas capital. Despite its very high domestic savings rate, China has absorbed immense flows of foreign direct investment, especially after its accession to the World Trade Organization in 2001. The engagement with global commodity production has ushered in a new round of capital accumulation, enabling China to amass a large current account surplus and foreign exchange reserves (Fig. 1). In order to sustain capital circulation, China has had to purchase U.S. Treasury bonds,<sup>11</sup> which has kept interest rates low in the United States and provided sufficiently relaxed credit to American consumers of products made in China, thus sustaining and driving China's export-oriented development. Thus China and the U.S. have forged a circuit of capital circulation that sustains a massive process of capital accumulation.

### State Governance of the Market

Polanyi (1944) described how unfettered market development in the 19th century led to a "double movement" through which a market economy was embedded within a market society. From this perspective, the rise of the Keynesian welfare state in the West and a more dramatic form of state control, the centrally planned economy in the former Soviet Union and Central and Eastern Europe, can both be understood as a response to an unfettered market that could not survive on its own. According to the theory of the "capitalist type of state" (Jessop, 2002, p. 11), the state must flank the operation of the market, because "neither capitalism as a whole nor the capital-labour relation ... can be reproduced purely through market relations." In other words, both require supplementary modes of regulation and governance, including those provided by the state.

Applying this perspective to the Chinese case, it appears that market-oriented development along with the accumulation process remains primitive, and requires forceful state support. The economic strategy of export-oriented growth relies on the state's ability to pull together production factors—land, labor, and capital—into the process of global production;

<sup>11</sup>In 2008, China held \$585 billion in U.S. Treasury bonds and \$376 billion in bonds issued by the mortgage institutions Fannie Mae and Freddie Mac. By July 2010, it reportedly still held ca. \$340 billion in Fannie Mae and Freddie Mac bonds (China Owns, 2010).



**Fig. 1.** Increase in China's foreign exchange reserves after accession to the World Trade Organization in 2001. *Source:* Compiled by author from China National Statistical Bureau (2010), State Administration of Foreign Exchange (n.d.), and Batson and Back (2010). The third quarter 2010 increase of \$194 billion, swelling overall reserves to \$2.6 trillion (by far the largest in the world) was the country's biggest-ever quarterly gain. The jump demonstrates the continuing pressure for the yuan to rise, suggesting the currency continues to be "undervalued," but also that capital inflows other than government purchases from export earnings (such as speculative foreign investment, or so-called "hot" money) may have been a contributing factor.

the rural-urban duality, the exclusion of rural migrants from welfare provision, and state ownership of land are all factors enhancing China's structural competitiveness. However, the exploitation of these cheap production factors depends on the state even more importantly to maintain a stable social order, which in turn requires strong state intervention. As a result, in China, the state is not diminishing or becoming "minimal," as envisioned in orthodox neoliberalism, but rather a "redistributive" (national) state (Nee, 1989) is evolving toward a system of "entrepreneurial" (local) ones deeply involved in land development and functioning as market actors in their own right.

Managing cheap labor is a crucial task in governing the market. Rural migrants must be flexible spatially to meet the needs of production, but at the same time must be managed through a set of state institutions (such as the household registration [*hukou*] system inherited from the planned economy) that minimizes their consumption of public resources. This is one of many tools the state can employ to "economize on urbanization" in a socialist context (Ofer, 1977; Chan, 1994).

Through effective state intervention in the market, the legitimization crisis that occurred in 1989 has been defused. The state has gained legitimacy by its effective promotion of economic growth, and its task for the future is to continue to build a "market society" through governance via the state apparatus (without stifling the market forces driving development). Recently, the new leadership has introduced the concept of the "harmonious society" in an effort to reconcile the social tensions stemming from rising inequality with the imperative for continuing market transition.<sup>12</sup>

Market-oriented development has released redundant production factors in China and recombined them with global capital, in the process greatly stimulating production and

<sup>12</sup>This is the keynote concept of China's 11th Five-Year Plan (2006–2010) (see Fan, 2006).

integrating China into the global economy. It is difficult to contest such a process for two reasons. First, as it is built upon uneven development at the global scale, market transition has created diverse interests across different classes, social groups, and identities. The exploited classes find it hard to identify themselves as part of a unified front and thereby form class awareness. Further, urban workers and households in China benefit from the inflow of rural migrants who take dirty, dangerous, and difficult jobs and provide cheaper services, but, on the other hand, find it difficult to identify themselves with the migrants and are reluctant for the state to extend welfare entitlements to them. Similarly, workers in advanced Western economies believe that the development of manufacturing industries in China has taken away their jobs, but, on the other hand, they benefit from cheaper imported consumer goods manufactured by the Chinese working classes. As such, the original conflict between capital and labor has been, to some extent, diverted to different fractions of working classes bounded in different nation states.

Second, because of the development of a market society, market exchange has become the dominant form of social integration. Holding a job is key to being associated with mainstream, urban society. For example, although migrants experience harsh working conditions, they nonetheless manage to improve their living standards relative to those prevailing in rural areas. Therefore, although it is laudable to contest discriminatory practices, care must be taken not to eliminate migrants' right to work entirely by restricting their access to the jobs on which they depend.

## CONCLUSION

Evidence suggests that China has experienced profound market re-orientation since adopting its economic reform policy. Despite this, the capacity of state control is not diminishing, but rather has been enhanced. The policies implemented under the rubric of market transition do not necessarily entail the "retreat" of the state, and do not follow non-interventionist neoliberal orthodoxy. In this regard, China's trajectory of market transition does not square exactly with the standard doctrine of neoliberalism. Theoretically, one might seek to explain this deviance by citing the lack of a singular ideological structure of neoliberalism,<sup>13</sup> or suggesting, as Peck and Tickell (2007), that neoliberalism has variegated forms, of which China can be considered one such case (Harvey, 2006). Further, it is possible to argue that, although China's experience with market development has not tracked precisely what might be predicted by the classic ideology of neoliberalism, its practices and urban policies may nonetheless be considered "actually existing neoliberalism" (Brenner and Theodore, 2002), combining market advancement with state control. Moreover, the recent change in urban policies in China to expand welfare provision<sup>14</sup> may be regarded as a new rolling-out stage of neoliberalization, in contrast to its earlier rolling-back phases (Peck and Tickell, 2002). Nonetheless, these theoretical propositions do not satisfactorily explain the origin of China's market-oriented urban development. And stressing China's specificity squanders the opportunity to investigate some essential contradictions inherent in neoliberalism.

On the question as to how "neoliberal" the Chinese reform is, there are differing views, depending on the perspective employed. On the "yes" side of the ledger, Harvey (2005) lists China as a major case in his study of the history of neoliberalism, and Li (2008) has

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<sup>13</sup>Peck (2004), for example, argues that neoliberalism itself is a composite ideological structure and cannot be reduced to any one of its constituent elements.

<sup>14</sup>The minimum living standard support established in 1999 has been significantly expanded and seeks to cover all qualified urban residents living below the poverty line.

developed a book-length treatment of China's capitalist development. Looking more specifically at urban development, Walker and Buck (2007) provide a synthetic account of the making of the working class and capitalists and commodification of land and housing, while others describe in detail the changes in individual sectors.<sup>15</sup> He and Wu (2009) discuss a series of policy changes in the process of urban redevelopment that legitimize and support operation of the land market, and Wu (2008) discusses China's wide-ranging social changes resulting from neoliberalization policies. On the other hand, Liew (2005) argues that because of the institutional legacies of state socialism, China does not fully embrace neoliberalism, or at most is only partially engaged with the ideology. Wang (2003), examining China's privatization processes, argues that the specificity of China's neoliberalism rests upon its institutions, a viewpoint echoed by Rofel (2007, p. 8), who suggests that "China did not simply follow a well-established neoliberal plan, fully laid out, based on normative principles."<sup>16</sup> However, the most explicit negative claim is offered by Wang (2008), who believes China's neoliberalism has ended and the country has now entered a new phase of adopting "social policies."

The question is further compounded by the distinctive development approach in much of East Asia, based on the developmental state. However, a forthcoming study suggests that newly industrialized East Asian economies are undergoing neoliberalization themselves (Park et al., 2011).

By reviewing the political-economic and historical origins of China's market re-orientation, this paper argues that the process of neoliberalization is a necessary fix to a specific problem that had reached crisis proportions by the late 1970s, namely an impasse in the previous mode of accumulation. By injecting idle labor reserves into the global capital circuit, the Chinese state managed to gain a sudden surplus of capital, in conjunction with the inflow of foreign investment. In the process, by providing rapid economic growth, the state has legitimized its existence. The Chinese model therefore consists of two seemingly contradictory yet complementary elements: a market mechanism and strong state control.

The historical and social context for the deepening of market reform during the 1990s was the need to escape from a second crisis resulting from the reform half-measures of the 1980s. The treatment of the market as an instrument or tool rather than a system, while keeping much of the planned economy (and public mindset) intact and unreformed, did not work. The tensions eventually contributed to the 1989 Tiananmen event. Wang (2003) has argued convincingly that the problems of the market economy created before 1989 more than anything else reflected the incompatibility between a modern market economy and traditional society,<sup>17</sup> and was not resolved until the establishment of a market-dominated *society*. This social transformation has been described by Jessop (2002, p. 23) as "bourgeois societalization ... the relative subordination of an entire social order to the logic and reproduction requirements of capital accumulation."

Can the Chinese case inform research on neoliberalism? It certainly provides a useful opportunity to explore some of the essential features of neoliberalism, such as the dominance of the market as a social integration and governing mechanism (*vis-à-vis* governmentality; Ong, 2007), regardless of the different concrete forms of state policies. Viewed from the perspective of Polanyi's (1944) three modes of integration (reciprocal, state redistribution, and market exchange), the Chinese case suggests that market exchange has been increasingly

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<sup>15</sup>E.g., see Hsing (2006) on property development and territorial politics and Huang (2004) and Li and Yi (2007) on the trajectory to homeownership.

<sup>16</sup>See also Zhang and Ong (2008) from the perspective of governmentality, and Yan (2003) for an anthropological analysis.

<sup>17</sup>Or in any event a "communist neo-traditionalist" one described by Walder (1986).

dominant over reciprocal integration and state redistribution, despite a strong state presence in social management. This market dominance, rather than the “retreat” of the state, makes it possible to refer to the changes occurring under market transition as a process of “neoliberalization.” From this perspective, the functioning of neoliberalism is largely concealed beneath the edifice of China’s specific conditions. Enhanced state control and urban policies that “flank” or support market operation are part of the overall societal changes accompanying this process. According to Harvey (2008, p. 23), “we live, after all, in a world in which the right of private property and the profit rate trump all other notions of rights,” and “despite ideals of human rights moving centre stage both politically and ethically, the concept of human rights does not fundamentally challenge hegemonic liberal and neoliberal market logics, or the dominant modes of legality and state action.” This market dominance has been widespread and continues to have a long-lasting effect in the aftermath of the global financial crisis.

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