

POLITICAL ECONOMY OF THE CHINESE TRANSITION IN THE LAST QUARTER OF THE 20TH CENTURY

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From the late 1970s, China started the implementation of a broad set of economic reforms that enabled it to leave the position of an underdeveloped country to reach the status of a global power. Throughout this period, the transition that was executed in China had as its main characteristic the autonomy and the sovereignty of the Nation State to drive such reforms. The political and economic conditions, both internal and external, played a decisive role in the way of driving the reforms. However, none of these factors overlapped the national interests. The economic modernization and the maintenance of a centralized political regime in the hands of the CPC remained as the main objectives of the reform strategy – which was being rearticulated and/or rethought from cyclical and structural changes in the economy and national and international politics. And these are goals that still serve as parameters for the major share of the Chinese Communist Party today.

Keywords: China; reforms; political economy; national State.

A ECONOMIA POLÍTICA DA TRANSIÇÃO CHINESA NO ÚLTIMO QUARTEL DO SÉCULO XX

A partir da década 1970, a China iniciou a execução de um amplo conjunto de reformas econômicas que permitiu sair da posição de um país subdesenvolvido para chegar ao status de potência global. Ao longo desse período, a transição executada na China teve como principal característica a autonomia e soberania do Estado Nacional para a condução daquelas reformas. As condições políticas e econômicas, tanto internas como externas, tiveram papel decisivo no modo de condução das reformas. No entanto, nenhum desses fatores se sobrepôs aos interesses nacionais. A modernização econômica e a manutenção do regime político centralizado no PCC permaneceram como objetivos centrais da estratégia reformista – que foi sendo rearticulada e/ou repensada a partir das mudanças conjunturais e estruturais da economia e política nacional e internacional. E são esses objetivos que ainda servem de parâmetro para as principais ações do Partido Comunista Chinês nos dias atuais.

Palavras-chave: China; reformas; economia política; Estado Nacional.

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1 INTRODUCTION

The last quarter of the 20th century saw the end of the most important global conflict since the end of the Second World War, the Cold War. The end of this episode, in favor of the capitalist bloc, headed by the United States, put in danger the continuity of the socialist bloc, with China being a clear exception of this process.

During the 1980s, economic changes stimulated and controlled by the Chinese Communist Party (CCP) helped China to ascend in an international scale. Such changes were not marked by a simple opening of the market, as suggested by part of the literature on the theme, but by a set of reforms that changes the actuation of the National State. There was clearly permission for the action of private and/or foreign agents; however, the most important guidelines of these reforms were the new directions of the state role. On a political point of view, the Chinese government did not perform an opening process and kept the CCP-controlled regime. These two aspects were considered by the government as the main pillars to, simultaneously, avoid the occurrence of great conflicts and keep social cohesion.

This set of transformations in China not only answered the formation of a coalition of internal powers, but also had a great influence on the new geopolitical and geo-economic scenario that started at the end of the 1970s. The reaffirmation of the North-American hegemony, the increase of the concurrence between the main capitalist nations, the dissolution of the Union of Soviet Socialist Republics (USSR), the conflicts in Eastern Europe and Asia were some of the events that, in a way, gave a new shape to Chinese reforms.

From these considerations, the purpose of this paper is to detail the historical trajectory of the Chinese transition, pointing out how political and social events, so as economic transformations – both internal and external – impacted on the process. For that, the text is divided into three sections, apart from this introduction (first section). In the second one, the historical elements of the Chinese transition process and a brief discussion on the options adopted by the Chinese government in the beginning of this process are pointed out. In the third one, the Chinese transition political economy is discussed, analyzing the measures taken by the National State to advance the modernization and development of the country, ensuring political control and social stability headed by the CCP regime. In the last section there are the final remarks.

2 MAIN HISTORICAL ANTECEDENTS OF THE TRANSITION: CONSTRUCTION OF THE "GRADUAL" PATH OF THE REFORMS

China's transition process by the end of the 1970s was immersed in a very specific political and economic historical scenario, and CCP's dynamism was a central point for articulating the reform programs. Since the 1960s, mainly

during the Cultural Revolution (1966-1976), the government of Mao Tse-Tung (1949-1976) tried to fight the crystalizing tendencies inside the party's bureaucracy and the accommodation of civil and military elites created during the construction of CCP itself. That is, the then Chinese leader instituted a logic that did not allow the perpetuation of certain figures in the main CCP boards.

This feature allowed great alterations in the political board of high-level CCP in the 1970s. The disastrous social and economic results resulting from the heyday of the Cultural Revolution¹ (1966-1969) opened up a space for the formation of a new coalition of powers from the party elite that was favorable to a political and economic renewal. The members of this elite that were contrary to the Cultural Revolution were rehabilitated and assumed a predominant position inside the Party, although Mao still kept the position of great leader of the regime.² This new CCP board showed itself to be partial to the performance of a transition and modernization of the economy program, which would be politically and ideologically delimited by CCP guidelines (Leão, 2010).

Leaving the political sphere, China started a process of fast economic recovery stimulated by a set of changes promoted in 1976, as emphasized by Nolan and Ash (1995, p. 984-85):

The urgency with which the immediate post-Mao economic situation was viewed is evident from measures which Hua Guofeng's government introduced as early as the last quarter of 1976. They included a cutback in basic construction investment, the freezing of institutional bank deposits and the readjustment of economic plans for 1977. They were supplemented by efforts to bring inflation under tighter control and the granting of wage increases to some 60 per cent of industrial employees. Further initiatives were introduced in 1977 and 1978, the most important of which was explicit official encouragement of foreign capital inflows and imports of advanced technology. Such measures undoubtedly helped facilitate rapid recovery during 1976-78.

Together with economic and political transformations, China's transition process benefited from the new geopolitical and geo-economic board, mainly

1. In addition to the economic recession and the low agriculture productivity, Fairbank and Goldaman (2006) pointed out that, as of this Revolution, a brutal suffering regime was established with, for instance, the destruction of schools and universities, the humiliation of intellectuals and professors.

2. Two events signaled the definite reversion of the balance of power inside CCP: the Tangshan earthquake, which killed half million people, and Mao's death by the end of 1976. As Fairbank and Goldman (2006, p. 371) remember, "all country men believed in the umbilical relation between men and nature and, therefore, in the relation between natural disasters and human calamities. After such terrifying presage [the Tangshan earthquake], only another calamity could take place: Mao's death". And it occurred in September of the same year. Soon after his passing, the Gang of Four, without Mao's support, was arrested by the order of the new leader of the Party, Hua Guofeng. In the two following months, the accusations against the Gang members increased in the same manner as the criticism on the methods used in the Cultural Revolution. Since the basis for Hua's political and economic project recovered some principles of the Cultural Revolution, the CCP leadership was transferred to a group headed by Zhou Enlai and Deng Xiaoping.

after the approximation between the Richard Nixon administration (1969-1974) in the United States and Mao Tse-Tung in the beginning of the 1970s.³

During this time, foreign relations with the main nation of North America became more strained both with soviet nations and with main capitalist powers. Among the events that caused these tensions, disastrous military and diplomatic incursions from the United States in Asia, Latin America and Africa can be highlighted, as well as the economic crisis of the 1970s and the increasing competition with Japan and Germany. In this scenario, the Richard Nixon administration sought to Chinese support with the concession of economic incentives and the performance of diplomatic initiatives (Leão, 2010). Thus, China got the financing of official North-American institution to import primary and capital assets, receives from the same country the treatment of Most Favorable Nation (MFN) and was authorized to join the United Nations. Furthermore, when there was an increase of tensions between India (military ally of USSR) and Pakistan got deeper, the United States, which was militarily united to the last country, signed an alliance with the Chinese government (intermediated by Pakistan) to contain eventual Indian-Soviet attacks (Nozaki, Leão and Martins, 2012).

However, China not only benefitted from this support, but also from some changes on its geo-economic surroundings. Apart from the growing Japanese initiatives of economic articulation in the region – in the case of China, there was a strong increase of loans from Japanese banks – another aspect had great importance: “the fast growth and reach of capital from the Chinese diaspora and its business networks in ‘great’ China” (Arrighi, Hamashita and Selden, 1996).

Therefore, the initial conditions of China’s transition process, which began in 1978 with the disclosure of the ‘Four Modernizations’⁴ reforms, allowed a much more cohesive internal conduction of set of country transformations. The existence of a political group that was favorable to the change of one part of the socialist economic program, the strong unity of the party elite, the State control over economic institutions and power instances, the incipient economy recovery, as well as the favorable external scenario, gave an opportunity to perform a new development project based on economic and political reforms (Leão, 2010).

On the one side, Chinese transition was characterized by a strong political control and, on the other, by a very gradual economic liberalization. From this perspective, Santayana (2008, p. 55) reminded that the “Four Modernizations”

3. For a more detailed analysis of this scenario from an economic point of view, see Medeiros (1999), and from a political point of view, see Nabuco (2009).

4 This program, created on 1975 and put into practice by the end of 1978, aimed, from the gradual introduction of market regulation and incorporation of capitalism elements, to modernize four pillars of the economy: agriculture, industry, armed forces, and science and technology (S&T).

strategy of the Chinese leader Deng Xiaoping⁵ was a liberalization to unify the Chinese nationalism and to make the socialist government legitimate with the insertion of capitalist elements that are strongly controlled by the State. According to him, “it was not an improvised opening. With Deng Xiaoping (...) [it was created] an original economic system, a State capitalism with private participation, under strict State control”. Furthermore, the direction and the goals intended by the Chinese leader reinforced “the conclusion that the defense of the national state [depended] directly of community cohesion, which only an independent State could ensure.”

In this sense, according to Deng Xiaoping himself, the “Four Modernizations” program did not have the purpose of performing a complete opening of the economy and much less to eliminate the socialist system. Reinforcing Santayana’s argument (2008), it was observed in his speeches that the Chinese leader perpetuated the idea that the attraction of capitalist elements, controlled by the State, would be the start point for the modernization of Chinese economy and not for the introduction of a completely liberal market economy:

socialist economy is based on public propriety, and socialist production is performed in order to articulate material and cultural needs of the population in the best way possible – trying not to explore it. These features of the socialist system make it possible for the Chinese population to share a common political and economic system and to approach the moral and social life standard. All of this cannot happen in the capitalist system. There is no path through which capitalism can eliminate the extraction of profit by capitalist or pulverize exploration and economic crisis. (...) Despite that, capitalism has a secular history and our population must learn with the people from capitalist countries. In that sense, we need to make use of the science and technology developed by them and assimilate its accumulation of knowledge and experience that can be used in the development of our country. Besides, if we are going to explore advances in technology and other assets from capitalist countries, we will not import its individualistic system nor anything that is negative to our Chinese society (Deng, 1993, freely translated).

Therefore, the transition performed by China established a pragmatic strategy to restructure the power system (still exclusively controlled by CCP and PLA) and of economic opening, whose transformations took place in an incremental manner after the positive evaluation of previous reforms (Leão, 2010). As discussed in the literature that studies the transition processes of socialist countries, China reforms clearly followed a “gradualist” approach, whose advances of proposed changes – which took place in long stages – occurred due to previous results, instead of a “rupture” approach (known as the big bang approach), as it was the choice, for instance, of USSR. For Roland (2001, p. 2-3):

5. Deng Xiaoping was, among other things, the president of the Central Military Commission of China (1983-1990) and vice-president of CCP (1975-1982). Deng was considered by a large part of the literature as the main political responsible for the implementation of economic reforms (Pinto, 2011, for example).

those who opposed the big bang approach often advocated a gradualist strategy, which emphasized the need for a precise sequencing of reforms. The political economy argument in favor of gradualism was that an appropriate sequencing of reforms would provide demonstrated successes to build upon, thus creating constituencies for further reforms. (...) Political economy arguments, along with being used in the context of pace and sequencing of reforms, have also been used extensively to explain or justify many aspects of the transition process. For example, China implemented “dual-track liberalization,” under which plan contracts between enterprises are maintained but frozen at a preexisting level and price liberalization is implemented “at the margin” for any production beyond the planned contract. The political economy argument for dual-track liberalization is that it was a way to liberalize prices without eliminating preexisting rents of economic agents.

In general terms, the attainment of a gradualist reform project in China answered to a great social rejection of any radical change and the need for State control to ensure a certain political unit and, simultaneously, to make reforms to promote the modernization of the economy, without generating great social instabilities and/or economic crisis (Fairbank and Goldman, 2006; Leão, 2010). However, the capacity of the Chinese government of putting in place this set of reforms depended not only of internal conditions that took place in that period, as well as international geo-economic and political changes, mainly regarding the increase of Cold War conflicts.

Obviously, due to these factors – whose specificities are not the purpose of this text – the transition process of China was not uniform and deprived of political and economic tensions. That is, the modifications, both in internal and external environments, imposed, many times, different paths to the reforms occurring in the country. A key moment for these paths took place during 1992. As highlighted by Pinto (2011, p. 29), in March of that year the Chinese government established what became known as the Great Commitment, in which “according to the Main Document no. 2 of Politburo, it ensured the process of reforms and liberalization for a period of one hundred years.” Due to this historical landmark, Chinese transition is evaluated in two moments: first between 1978 and 1991; and second between 1991 and the current days.

3 CHINESE TRANSITION SINCE 1978

3.1 The transition until 1992: economic reforms, political tensions, and the creation of the “Great Commitment”

The transition process of China was based on an economic and military modernization process controlled by the CCP and by its power instances. The economy and PLA development reforms were characterized in two important aspects of the Chinese strategy to keep its political regime. Such sustentation, on its turn,

was essential to the performance of those reforms and its long term goals (Medeiros, 2008). In this sense, the military sector worked as a thermometer of the economic and social development immediately after the Mao period. While the internal environment was changing, CCP determined new tasks and purposes to PLA that, in the last case scenario, should sustain the final target: the political monopoly of CCP with economic modernization and social stability (Medeiros, 2008; Santayana, 2008). That caused the guidelines of economic reforms to be subordinated to the coalitions of organized forces in the power sphered of CCP.

Therefore, the modernization and opening performed in China were supported not only by the new coalition of political forces (originated after Mao-Tse Tung), as well as the conception of a new economic, political, and military plan in the international level, set based on the increase of relations between the capitalist and socialist blocs during the “Second Cold War.”

In the beginning of the 1980s, the Ronald Reagan’s government policy (1981-1989) tried to isolate USSR in two fields: *i*) the attainment of direct measures for economic and military restrictions to the soviet bloc;⁶ and *ii*) the performance of a set of indirect actions in countries that belonged and/or were from the soviet influences sphere, such as the economic incentives given to China. This last factor strengthened the economic relations between both countries. Furthermore, the reorganization of the Asian economy during the 1980s showed itself to be a key point for the implementation of the economic transformations of China. That was caused by the observation of a strong integration of Asia’s productive structure, mainly after the increase of conflicts between the United States and less developed countries of the region, specially Japan. Due to the high commercial and productive pressure, the United States tried to limit the power of industries and foreign trade in those nations. For that, they exerted mercantile pressure over Japan, South Korea, and Taiwan through the imposition of export quotas, exchange appreciation agreements,⁷ and extrapolation of the productive concurrence in a global level. These pressures gave impulse to the migration of Japanese, South Korean, and Taiwanese industries, mainly, and even of other Asian nations, such as China, where production costs and macroeconomic incentives (exchange and tax subsidy, for example) are more attractive, strengthening the Chinese exportation industry (Leão, 2011).

6. The strategy was to choke the continuity of soviet socialism, using five fronts, three of them directly hitting USSR: the Strategic Defense Initiative (SDI) military and technological project; the installation of a MX missile network in the country, intensifying the arms race against USSR; and the campaign to reduce USSR access to international borders (Fiori, 1997; Medeiros, 2008). In the geo-economic sphere, the North-American government imposed a ban on the purchase of cutting edge technology and access to external borders to USSR.

7. In the case of Japan, the appreciation of the Yen and the establishment of quotas to exportations are materialized on the Plaza (1985) and Louvre (1987) agreements. For South Korea and Taiwan, the appreciation of their currencies took place by the end of the 1980’s, together with the decrease of commercial concessions given by the United States (Leão, 2011).

This economically favorable image took place in a time of great conflicts in the socialist bloc, whose events also influence the course of the Chinese reforms. Among them, the Chinese invasion of Vietnam in 1979 and the creation of the Solidarity Syndicate in Poland in 1981 should be highlighted. While the first event showed the delay and low military capacity of China, the second one pointed out, for the first time, the existence of an anti-socialist organized movement, structures inside a socialist republic. Therefore, the first initiatives of the Chinese government were to establish a PLA restructure program (Leão, 2010), in order to modernize military equipment, minimize risks of external threats, as well as strengthening control institutions of the Party.

The military reform was created based on five key elements: administrative reorganization, establishment of a new power composition, creation of a new military doctrine, material modernization, and redefinition of the social role of the Army. The first element of the PLA modernization program had the goal of restructuring the manner of the organization, training, and education of the system and making the means of control, communication, and command inside PLA more sophisticated in the sense of supporting the economic decentralization process and, at the same time, making the defense system more sophisticated. Regarding this last aspect, there was an interest of the new summit of the Party to eliminate the inheritance from the military administration of the Cultural Revolution period. The second element had, on the one side, the function of rethinking the composition, size, and geographical dispersion of the Army, and on the other, the purpose of renovating a large part of the military leadership and combat personnel. The third element was related to the doctrine modernization of the army, both in the strategic and the tactical fields, which goal was to redefine the manner the Army behaves in the battle field, as well as facing and defeating the enemy. The last two elements referred to the material and social base necessary for the implementation of other elements. In summary, it was an intent to increase the physical capacity of the Army based, for instance, in the increase of the number of well-trained recruits and equipment supply, on the one side, and to redefine the relation between military members and civil society in times of peace, on the other (Robinson, 1982).

In addition to the PLA reforms, the Chinese economic structure organization also presented a great capacity of attending the consumption needs of the population and development of productive forces – both in the cities and in the field. From this conjuncture and from previously explained opportunities arising from the foreign market, which could be enjoyed due to the opening for foreign capital, China promoted a set of transformations in its economy.

In the countryside, the government reforms changed the production dynamics through the elimination of agriculture communes, giving greater freedom to rural families to produce and sell their products. Furthermore, Chinese authorities gradually increased and liberalized the prices of primary products, as well as performed an intense modernization program for agriculture products, counting with foreign financing (Lin, 1992). From the strengthening of rural cooperatives (known as Township and Village Enterprises) – which, in addition to primary products, also produced industrial merchandise, such as processed food and light manufactures – production plants of many segments were installed in the countryside, including in partnership with foreign enterprises. This movement gained strength around the 1980s, being one of the main appendixes for the attraction of foreign industries (Leão, 2010).

Similar to what happened in the country, in the industry, the first measure was to authorize State companies to sell their exceeding production in the market, after giving to the State part of it. As said by Claro (2003), this happened at the same time as the gradual liberalization of prices, increase of public credit,⁸ and stricter control of production during the 1980s. Also, during that time, the restructure of State companies went, on the one side, through the separation between propriety rights and company management and on the other, through autonomy given to certain industries for its conduction,⁹ keeping only strategic sectors (high technology and infrastructure, for example) under the responsibility of the central planning. In the case of exportation of capital intensive companies, they were still favored by the opening of the consuming market and North-American credit for, respectively, absorbing and financing Chinese products. Added to this fact, the government – using the formation of that regional productive network, i.e., the transference of companies from the most developed countries in Asia to nations like China – started the creation of diverse special economic zones, special for attracting foreign capital in sectors considered as crucial to the main planning through the offer of subsidies and advantageous macroeconomic conditions.¹⁰ Foreign companies had their actions limited regionally and sectorially, in addition to being forced to join local business to transfer technology, management techniques, etc. in multiple times. Effectively, these zones have the purpose of elevating the production and exportation of certain segments, as well

8. During the first decade of reform in the financial system (1980), the Chinese government kept the propriety of State banks unaltered, and did not allow the entrance of private banks. Meanwhile, China created new State banks – which assumed the function of commercial and development banks – leaving the People's Bank of China – responsible for all of these functions during the Maoist age – to act only as Central Bank. Through these banks and the replacement of the main floatation mechanism of the economy (budget funds gave place to bank loans), the country was able to rapidly increase the volume and sectorial coverage of credit (Leão, 2010).

9. So, instead of being submitted to the rules of production and distribution imposed by the government, the companies of this sector were able to determine its level of production and how to replace its profits.

10. For a detailed discussion, see Leão (2010).

as supplying cutting-edge technology and business opportunities for domestic Chinese companies (Zonenschain, 2006).

In the science and technology (S&T) sector, the strategy of the Chinese government was to create programs – which were subordinated to the Science and Technology Leading Group (STLG) State agency – to accelerate and disseminate innovations. That was possible, specially, due to the decentralization of the decision-making process – giving greater management freedom to companies – and the generation of new research and development (R&D) centers in a local sphere. The S&T system was gradually liberalized for the private sector, at the same time that it authorized the association of research institutions with organizations and/or producers in the country and in the city. In addition to giving new incentives to R&D investments, this movement encouraged the articulation between R&D specialized companies and agencies (Saich, 1989). While market regulation was liberalized, the government did not eliminate, but only redefined its control parameters for the S&T sector, mainly, in the sense of giving incentive to this approximation between research and production structure. In this perspective, for example, the Chinese government stipulated some technology programs that had two goals: *i*) to absorb foreign production and administrative techniques, disseminating them to the industrial sector and research institutions; and *ii*) to improve the action environment of high technology industries (Saich, 1989; Zonenschain, 2006).

The positive results from the reforms made it possible, by the middle of the 1980s, to reach a consensus concerning the strategy adopted for the Army and the economy. However, the internal and external situations in which these reforms were promoted motivated a political division inside the CCP. For line of the Party – in which Marxists-Leninists can be emphasized – the Solidarity Syndicate showed that the legitimacy of the socialist regime could be questioned, which would affect the internal stability and the actual path of the reforms. For another line of thought, favorable to a higher political opening, the success of economic programs and military modernization – which was connected to a higher autonomy of the actuation of local governments – would only continue if the country also broke with the current political structure. Thus, on the one side, there were those favorable to the maintenance of CCP dictatorship as a way of avoiding conflicts and social movements that would prevent the development of the country (like the Solidarity Syndicate), and on the other, there were the supporters of a political opening for the consolidation of China's new development project.¹¹

11. "(...) in the political plane, the second half of the 1980s was marked by the growing internal division of CCP, when Hu Yaobang and his disciples pressured the party's direction for a greater political liberalization. Under the influence of CCP liberals, there was an increase of manifestations in universities and coastal cities" (Medeiros, 2008, p. 229).

However, the social and political scenarios in China by the end of the 1980s motivated a slowdown of economic reforms and the weakening of the defending group for a fast opening. In 1989, the increase of inflation, the high increase of expenses with provincial governments, the reduction of the real salary, and news on public power corruption ended up motivating the increase of social tensions (which exploded in the Tiananmen Square protests)¹² (Pinto, 2011). The repression to these protests made the debate on political opening to lose force and created difficulties on the maintenance of the “Four Modernizations” reforms. That is, the resulting repression of this movement, and the economic crisis itself, made the discussion on a change of the political system in China to be abandoned. Chen (1997), for example, found that the opinions in the direction to the establishment of a democracy did not make more sense after the results of the events of 1989, providing a kind of emptiness of the political debate in China until 1992.¹³

Immediately after this moment, the disputes inside the Party increased regarding the ways of economic reforms. Deng Xiaoping worked for winning the existing resistance inside the Party and fixed an arrangement, known as the Great Commitment – effective on 1992 – that “ensured” a pragmatic policy of economic reforms between two large competitors (as previously observed) – which were divided in the 1980s and bared the main segments of CCP (elders, Marxists-Leninists, pro-opening, local leaders, technocrats, and PLA) (Pinto, 2011; Leão, 2010). Only then it was possible to advance in the economic and military transformation policies. Despite the advances of economic liberalization and PLA reorganization, the alterations up to that moment were guided inside the Party. That is, both the Army and the main State companies (and also banks) remained subordinated to CCP, including those controlled in many cases by figures connected to the Party.

During the 1990s, due to new and connected foreign events, among other aspects, by the end of the Cold War, the need to follow the advances of the opening and modernization reform without losing the political centralization of CCP was explicit, as shown in the next subsection.

12. “Manifestation of Chinese students at the Celestial Peace Square against the government and CCP” (Pinto, 2011, p. 29).

13. “The 1980s saw a drawback of radical movements that were favorable to democracy. One of the reasons was the Tiananmen incident, which eliminated the most radical defenders of democracy from the political debate. The exit of this group from the political scenario, together with the intolerance from official authorities, effectively ended the debate on democracy [during that time]. Also as a result of military repression, a great number of intellectuals chose to be silent, abstaining from writing and publishing. For that reason, the period between the summer of 1989 and the beginning of 1992 was the time when intellectual debates were more depressing since the beginning of the reforms” (Chen, 1997, p. 595, freely translated).

3.2 The transition from 1992: the continuity of the reforms, the sustainment of the political regime, and global ascension

Similar to the previous period, the new phase of the Chinese transition – started in 1992 with the Great Commitment – kept the strategic goals for ensuring the modernization of the economy and military structure, as well as the political unit without creating social tensions. Similar to the previous period, the political and economic internal and external conditions had a relevant influence in the policies profile adopted after the Great Commitment.

From a domestic point of view, in the first place, the Chinese government certified itself of the delay in its military and technological sectors regarding great potencies due to the results observed in the Persian Gulf War in 1991, which showed the existence of a new generation of arms and technologies in the United States (Medeiros, 2008). In second place, some lines of thought from CCP still kept a skeptic posture on the continuity of reforms due to the episodes that took place by the end of the 1980s (Pinto, 2011).

From an external point of view, the first event that caused significant impacts for Chinese reforms was the USSR collapse and the political-economic options followed later by the government of former soviet republics (mainly the Russian one). As pointed by Andrew Walder, a set of authors and scholars on the transition of socialist economies pointed out that the Chinese government learned important lessons for changes that took place in USSR and also in the new transition economies:

that despite its historical and institutional distinctiveness, *China nevertheless holds important lessons for all transitional economies* (...). Nolan and Ash find that China's refusal to heed the advice of Western economists, and Russia's effort to implement it, assisted China's rise and Russia's fall. (...) Putterman questions the categorical conception of property rights that underlies the macroeconomist's faith in privatization; Oi questions the commonplace assumption that public bureaucrats cannot behave as if they were private entrepreneurs. While all these authors share the view that there are no authoritative answers, and that *persistent pragmatic experimentation through time can work*, they also share a deeper assumption: successful reform involves the relentless introduction of choice, alternatives and competition into the environment of all actors in the economy, regardless of who they are (Walder, 1995, p. 978, our italic).

The last point in italic, i.e., the maintenance of a persistent and pragmatic experiment of reforms throughout time – necessary for ensuring its success – gained even more importance after 1992. Also stimulated by domestic issues, the hypothesis acquired more strength from the results observed in the soviet, and then Russian, experience. Taking these results into consideration, Chinese politics and scholars saw the end of USSR and the Russian crises as products of

“radical” transformations implemented in a short space of time in the USSR¹⁴ of Mikhail Gorbachev (1985-1991) and the fast economic opening that occurred in the Russia of Boris Yeltsin (1991-1999). According to Chen (1997), for example, for a large part of the Chinese political system (including the most liberal ones), the dissolution of USSR had a direct relationship with the attempt of democratization that occurred in Mikhail Gorbachev administration.

Additionally, the Sino-American relation remained having an important function for China's reforms. Although the conditions that supported Chinese economic transformations since the 1970s gave place to stronger political and economic tensions,¹⁵ the Chinese government was able to use the strengthening of the bonds previously established with the United States. Whether it is for the high investments and commerce performed by North-American companies in the Chinese market, whether for the broad acquisition of debt titles from the United States by the government of China, the fact is that the Asian country acquired a higher power of bargain with the Anglo-Saxon country. The creation of an investment, financial, and international trade network among both countries gave China the chance of occupying new geo-economic spaces, as well as limited the possibility of the United States to create restrictive policies, as it happened with other countries in the 1980s (Leão, 2010; Pinto, 2011).

Together with the changes in Sino-American relations, another aspect that influenced the direction of the reforms was the strong opening process on the production chain and the commercial liberalization in the 1990s, which hit almost all global economies. This process had as one of its effects the increase of industrial competition, involving almost all great multinational companies of the world. That made it obvious the incapacity of the Chinese productive system of competing with these nations in the most diverse industrial sectors, both those focused on technology and those focused on natural resources and infrastructure.

China also found some regional economic conditions that helped the continuity of its reformist strategy during the 1990s. The recession and then the crisis of Asian economies made the country the manufacture center of the region.

14. Among these transformations, it should be highlighted: the democratic opening; the economic reconstruction from the fast introduction of market mechanisms and the autonomy of companies; the end of media monopoly and the inexistence of a reorganization strategy of communication means; and the break with the power structure responsible for the coalition and USSR unity (Medeiros, 2008; Odom, 1992; Ellman and Kontorovitch, 1992).

15. In the political sphere, “[some] episodes were important for the rise of [this] political conflict, such as the non-signature from president Bill Clinton of the agreement that would give the support from the USA to China's entrance to WTO (World Trade Organization), the increase in the sales of arms to Taiwan – rebellious province in the conception of the Chinese government –, the wrongful bombing of the China Embassy in Belgrade/Serbia in May 07, 1999 during air attacks from the North Atlantic Treaty Organization (NATO), and the collision of a USA spy airplane with a Chinese fighter aircraft over the south sea of China in April, 2001” (Pinto, 2011, p. 32). In the economic sphere, Medeiros (1999, p. 395) reminded that “using its dominant right of veto in the World Bank and in the Asian Development Bank, the [United States], claiming disrespect to human rights, blocked loan requests for many years.”

After 1995, the currency appreciation in countries such as Malaysia, Indonesia, and Thailand and the increase of its coefficients of importation and deficits in its accounts of factor services, in a set of strong financial liberalization, braked the participation of these countries in that productive regional integration (explained in the previous sub-section). Indeed, a chance arose for China to absorb an even higher volume of investments and industries of the most developed region of Asia. Thus, the Chinese giant quickly became the “great Asian industry”, absorbing investments and the production of neighboring countries and, simultaneously, establishing itself as a great market for the exportations (food, agriculture and industrial products, and manufactured final goods) of the same countries (Leão, 2011).

In short, if the geopolitical and geo-economic scene at the beginning of the 1990s had placed some barriers to Chinese development, the Asian country was able to fortify already established economic, commercial and financial flows with Asia and the United States, in addition to the advances already reached in the previous period. These aspects were added to the lessons learnt from the processes of transition of the USSR and the changes observed in Russia – a fact that also occurred in other former Soviet republics – had great importance to determine not only the nature of the reforms, but also the rhythm and the intensity of its execution.

Based on this context, the options traced for the Chinese government, after establishing the *Great Commitment*, obeyed the following guidelines: *i)* sustentation and reinforcement of the linking between CCP and PLA; *ii)* maintenance of the pragmatic character of the reforms, mainly in the political and socioeconomic fields, with prominence for the aspects related to foreign capital; *iii)* bigger control of the apparatuses and social sectors (the press, culture, etc.); *iv)* leadership and intervention of the National State in the conduction of the economic changes; *v)* magnifying of the field of diplomatic relations with some regions of the world in order to legitimize the Chinese political regime; *vi)* continuity of the economic modernization with bigger support of the external sector and the formation of great national conglomerates capable of competing internationally; and *vii)* technological development of the military device.

In order to reach these guidelines, the first initiative was *to advance in the external insertion of the country by means of the biggest joint between investments and production of the foreign companies – with emphasis on the Asians and the United States –, since “the attraction of foreign capital was inserted in a strategy to encourage domestic companies and qualifications”* (Zonenschain, 2006, p. 84). Moreover, it had the strengthening and the conglomeration of the state-owned companies in key sectors, seen as essential to command the structural changes of the economy and that demanded long term investments, and the acceleration of the reforms of the financial

system aiming to speed up the demand of credit – mainly for the great state-owned companies – and to bring improvements for its banking institutions. The second initiative *was to fortify the investments for the sophistication of the Army and to extend the bilateral political relations both in Asia, as in other continents, in addition to supporting the state control on some sectors of the society*. Since the end of the Soviet bloc, some changes in the regional political system signaled the necessity of the Chinese State to coordinate its military and diplomatic actions in the sense of externally and internally legitimizing the form of management of CCP.

Regarding the first initiative, with the *Great Commitment*, China carried through a bigger opening, creating new areas to receive foreign investments – special economic zones –, that until that moment were sufficiently limited geographically, and used tax, industrial and cambial policies to favor the entrance of foreign companies with exporting bias. The performance of the Chinese State was crucial in directing these investments for the productive sphere and the promotion of the exportations. In other words, the National State fortified the strategy of differentiated external insertion, whose main line of direction was the permission for entrance of the foreign capital in the productive structure. However, this opening did not occur in an indiscriminate form, but in more dynamic industrial chains of the international economy (microelectronics, for example). Even after 2001, when it signed its commitment of adhesion in the World Trade Organization (WTO) being obliged to gradually relax the protectionist politics, the Chinese government constructed a strong regulation apparatus to manage and control multinational companies, since it negotiated an extensive transition schedule for its entrance in WTO, attending to its strategic interests to the maximum (Lardy, 2003).

In the meantime, the government used its larger economic approach with the Occident and the most advanced countries of Asia and submitted the reorganization of the structure of production for the development of the great state-owned companies in an environment of great articulation with the private sector (country cooperatives, foreign companies, etc).¹⁶ This occurred, in the first place, by means of strong regulation that forced the internal transference of technology from transnational corporations, in a similar way that offered to state-owned companies the chance to create and/or explore new processes and products without having to face the wild competition of private and foreign capital. In second place, it also happened through the intermediary of a policy

16. From this articulation, Chinese companies could be inserted in the global production chain, reducing the distance of national and international technological frontier. According to the author, "the most productive Chinese domestic companies [were] those that had foreign partners, part of international markets, or up against international competition". They took advantage of this process, since they absorbed many foreign technologies that, on its turn, "enabled efficiency gains in the product cycle (more competition among suppliers) and flexibility for adaptation to new assembly lines, making it easier to migrate to new products" (Zonenschain, 2006, p. 109).

in which the allocation of resources and the goals of production dislocated the role of national companies for the accomplishment of long term investments in some strategic branches that, in general, were connected. This change in the role played by state-owned companies demanded an ample conglomeration process of these companies aiming to increase its level of international competitiveness and the power of leverage, as well as modernizing the organizational and productive system of these companies (Leão, 2010).

The state-owned companies also assumed the center of the technological development, subordinating the actions of other agencies to S&T complexes. As suggested Zhang *et al.* (2009), in recent years, Chinese companies still have commanded the generation of innovations in the country by means of absorption and adaptation of foreign technology, but also from the creation of new technologies. For that reason and also because of the reforms of the S&T system,¹⁷ as well as the expansion of public investments, state corporations, in addition to extending its capacity to generate innovations, it inaugurated a new standard of technological development. The differential of this development is based on the capacity to not only use cutting edge technology available in its sector, but the accomplishment of reverse engineering processes, using more primitive technologies. This movement has been unknown, since not even the occidental experiences had combined as many different technologies.

To support the performance of these state-owned companies, the Chinese government deepened the transformations in the financing system. After the 1990s, the reforms during this moment progressed in order to extend the regulation and to make the institutions more efficient, i.e., apt to compete with foreign banks (Dias, 2004).¹⁸ Furthermore, the government increased the strategy of using the public banking loan as the main source of financing mainly for great infrastructure and capital and technology enterprises of the biggest state-owned companies (Leão, 2010).¹⁹ Mainly in the 2000s, the existing link between the biggest Chinese banks and the great state-owned companies was strengthened,

17. Two S&T development programs call attention. The first one, named National Key Basic Research and created in 1997, had two main targets: basic research and the performance of original innovations by Chinese institutions. For that, apart from the increase of financing of universities and other basic research departments, interdisciplinary research centers were created, being responsible for developing projects to advance the technological barriers. The second one, Science and Technology Plan, of 2005, was created to increase the integration of the Chinese production and technological structure to the Global System of Innovations, mainly from the action of large State conglomerates.

18. As listed by Dias (2004), there were four basic pillars of these changes proposed in the beginning of the 1990s: to define a specific legislation to the financial sector, to clarify the rights of propriety; to improve the infrastructure and introduce innovations capable of supporting a larger opening of the market; and to allow the beginning of fusions between national and foreign institutions – even so the participation of the private sector in the financial system was not significantly increased, even nowadays. The last two pillars had to higher relevance in the 2000s. That is, although they were announced since the 1990s, the entrance of foreign institutions and the transference of propriety rights were only recently prioritized.

19. While in 1992, bank credit represented 91% of the gross domestic product (GDP); in 2005 this amount was 135%. And, in this past year, over 70% of credit was given by State banks (Leão, 2010).

allowing the fast dissemination of the banking capital for the productive sector. As Burlamaqui (2012) emphasized, the strengthening of these two spheres (banking and productive) in a state scope, served as an instrument of territorial expansion and scale of production of the Chinese companies (also out of the country). The great infrastructure enterprises and the process of internationalization of great corporations have been financed by great state banks. In this sense, for example, “the Bank of Development of China (...) is a state institution of financial support that created [recently] a fund of initially 5.1 billion dollars for the acquisition of foreign companies for Chinese companies” (Costa and Souza-Santos, 2010, p. 168).

On the second initiative, the collapse of USSR opened an important space for the Chinese in the international economy, extending its area of influence to Asia and Eastern Europe. Through the strict control of the State, the Chinese government saw a chance for the country to extend its geopolitical and geo-economical role, aiming to reach a *status* of world power in the international system.

The elimination of the Soviet bloc promoted a climate of instability and doubts regarding the territorial redefinitions in Asia. As reminded by Shambaugh (1994), in the immediate post-Cold War period, the vision of the Chinese defense policy was surrounded by a high degree of uncertainty resulting from the political changes that took place in 1991, whose definitions could generate territorial and border disputes involving China and its closest neighbors.

Using this logic, the Chinese authorities understood that the modernization of the Army, in special of the navy and aeronautics, was essential to answer these potential territorial conflicts with other Asian countries. In this same line, Whiting (1995) emphasized that a tension between China and the East Asian existed involving territorial disputes, in special with the Philippines, Malaysia, Brunei, and India, which motivated the acceleration of the investments in the PLA in maritime and aerial equipment. This issue, together with the Gulf War, made China, in the first half of the decade of 1990, to greatly extend its military budget and to start investing in the strengthening of the commercial and political relations with Russia, as a manner of attracting technology and to modernize the Army.

Together with strong investments in the military sector, regarding foreign relations, “there was a search for reduction of the conflicts with the neighbors, which determined (...) the restoration or establishment of diplomatic relations with Singapore (1990), Indonesia (1990), Brunei (1991), and South Korea (1992)” (Cunha and Acioly, 2009, p. 348-349). The approximation initiatives, besides being part of the so-called “pacific ascension” of China, created strategy of international legitimation of the Chinese political system.

The guidelines of the Chinese government to fortify the political regimen and to modernize the Army quickly became a higher priority between the end of the 1990s and the first half of the 2000s. A first reason for that was the growing stress in the relations with Taiwan. In 1999, the Taiwanese president, Lee Teng-hui (Kuomintang Party), declared the strategy to invest in a relation between a “special State” (Taiwan) and China, making evident his objective to support the national of Taiwan, that is, to keep the independent position from China. The conflict was aggravated after the victory of Progressive Democratic Party (PDP) in the 2000 elections, whose political beliefs were always clearly favorable to independence and sovereignty, and Chinese initiatives to narrow the alliances to the Occident in order to fortify its strategy to reintegrate the island to its domestic territory (Zhang *et al.*, 2003). As a consequence, the new government of Taiwan “initiated an armament race, increasing military expenses and the purchase of sophisticated armament, as well as implanting new systems of defense” (Zhang *et al.*, 2003, p. 376, freely translated).

Second, because there was a succession of events led by the United States with the objective of extending its action spaces - in the diplomatic and military fields – in Central Asia and the Eastern Europe.²⁰ The first of them were the entrance of the United States, through the North Atlantic Treaty Organization (NATO), in Kosovo in 1999, a fact that strengthened the North-American unilateralism. After the terrorist attack of September 11, 2001 in New York, the United States exerted pressures on Russia and conquered its support in order to perform other two important actions in the region, namely: the Russian government accepted the entrance of NATO in the Baltic States (Lithuania, Latvia and Estonia) and the entrance of the North American military forces in Georgia (Norling, 2007).

As a response to these movements, the Chinese government acted in order to limit the innovations of the political system in the region. Moreover, the Asian giant tried to narrow its relations to the Russian government, since Russia had a great relevance to contain the increase of interference of the United States in those regions. Taking advantage of the distancing between North-Americans and Russians in the second half of the decade of 2000, because of the interference of the first country in political systems of former Soviet republics²¹ and its direct support of movements

20. This two regions started to have great geo-economical and geopolitical importance to China due to many reasons, among them the increase of Chinese demand will be energy drinks and military interests.

21. The political intervention of the United States and the establishment of economic and military cooperations with nations such as Iraq, India, and Turkmenistan was seen by the Russian government – and also by the Chinese – as two instruments of the expansion of the political, military, and economic presence of the United States in Asia. Due to that, both countries established a non-intervention external policy for matters of other countries and invested in a military cooperation, which culminated in the consolidation of the Shanghai Cooperation Organization – SCO, a regional security institution – and the expansion of commerce and bilateral military agreements.

that had become known as “Color Revolutions,”²² China obtained a space to reapproximate itself to Russia as a form of strengthening the importance of CCP and to attract resources to develop its Army.²³ Finally, the government organized a reform of the defense industry establishing a program of acceleration of military expenses, as well as the creation of great corporations to manage the program:

The (...) major reform began with the shakeup of the [military] industry in 1998-99 and is characterized by fiscal, policy, organizational, and enterprise restructuring. Critically, defense funding was dramatically raised. (...) Spending on equipment and weapons procurement has increased the most. This portion of the budget was readjusted from a low of 16 percent early in the 1990s to roughly one-third, where it stands today. More funding has also been made available to basic R&D. Defense R&D likely reflects national figures, which have nearly quadrupled since 2000 and currently amount to 1.5 percent of GDP. Greater funding within the defense sector has also been directed toward weapon development management, innovation, and application of basic technologies and the talent needed to implement it. Improved finances are also manifest in the salary increases of key personnel in the defense sector during the past decade. (...) The reorganizing of the Commission on Science, Technology, and Industry for National Defense (COSTIND) was key as well. (...) With the creation of the defense production industries into major group corporations, these reforms separated the buyers from the builders, with COSTIND a regulatory and administrative role. This allowed for a more contract-based procurement system that in-stilled a degree of competition, helping forge a system better equipped to fulfill the demands of the military (Hagt, 2010, p. 485-486).

In this context, the internal legitimization of the CCP also assumed great meaning, in view of the necessity to support the political and social stability of the country. For Chinese leaders, the pressures against the democratic configuration – as it was occurring in the old Soviet republics – would stimulate its own regional systems, contrary to the maintenance of internal control and favorable to social instability. This, in turn, would eliminate the validity of the regime, which was based on the partisan ideology, and could again cause a crisis or a magnifying of social tensions, similar to what happened in 1989.

In addition to the maintenance of the political regime, the control of certain social instruments also was seen as basic to prevent the increase of conflicts between diverse sectors of the society. In the case of the Medias, until today the Chinese

22. “[The expression] ‘Color Revolutions’ was a name given to mass movements that took place in the region of the former Soviet Union that resulted in the replacement of established governments. The Rose Revolution, in Georgia, the Orange Revolution, in Ukraine, and the Tulip Revolution, in Kirgizstan, are movements frequently labeled as such. As a whole, the color revolutions (...) were caused by elections considered as fraudulent” and tried to effect a new democratization of political regimes (Ortega, 2007, p. 2).

23. In addition to these matters, Islamic separatist movements that are present in Chechnya and Xinjiang motivated the strengthening of the relationship between China and Russia in order to build an integrated posture against the intervention of multilateral nations and organizations in Chinese and Russian internal matters, as well as those of countries located in Eastern Europe and Central Asia.

State keeps restrictions, for example, to the foreign and/or private TV channels. For the Chinese government, there has been an increasing attempt of the international media to influence the Chinese population, which could bring great riots to its harmony and social stability and politics. Based on this conception, the maximum leader of the country, Hu Jintao, has made speeches saying that the Occident has tried to influence Chinese society mainly through the available tools for new Medias. For him, there has been an attempt “to divide China, and the ideological and cultural fields are the focal areas of its infiltration in a long term period” (Maisonave, 2011). Obviously, this speech was part of a Chinese political strategy to strengthen its concern with its process of opening to the exterior – which has obviously extended the access of the occidental countries to the Chinese society –, as well as showing that this subject has been a priority for the government of the Asian country. Examples of this were the maintenance of the centralization of political decisions in the CCP and the state control of other spheres of society.

All these considerations corroborated to the affirmation of Medeiros (2008) that, after 1991, China consecrated the strategy known as “a center and two basic points”. The center was the fast economic development and the modernization of the PLA, while the two basic points were the increasing opening of the economy and the maintenance of the internal deciding power in CCP (which was based on Maoism). In this sense, it became possible to observe two opposing movements, but that go in the same direction: in the first place, the maintenance of the political line – with military support – which was a feature of China since the times of Mao Tse-Tung and, in second place, the transition of a closed and centered economy to a still extremely controlled economy, however with greater participation of the market. Both movements converged to the modernization of the country, without losing the capacity of the State to control the economic and political changes.

Thus, it was evidenced that the economic and political reforms were articulated in the interior of institutions connected to the National State. The restrictions and controls imposed to foreign companies, the leadership of state-owned companies in the reorganization of the productive structure, the expansion and sophistication of PLA, as well as the coordination of the changes carried out by CCP – in the objectives and goals defined in the Five Year Plans, for example – had some of the elements that proved the strengthening of the National State as the main agent of the project of transition in China.

4 FINAL CONSIDERATIONS

Since the end of the 1970s, the transition option of the Chinese government followed “a gradualist” view, through which reforms tried in the long term to modernize the economy and the military sector, without losing the CCP’s centrality in the political system. The obstacles and crises that took place throughout this

period did not modify the structural objectives placed by the CCP in its process of transition. However, by the end of the 1980s, embrittlement of the economy and the increase of the dissatisfaction of some sectors of the society had blown up the protests of the Tiananmen Square and, as a consequence, installed a “crisis” inside CCP.

This “crisis” was solved by the strengthening of the political power of the CCP and trying to create new foundations – always with the leadership of the National State – to advance the reforms of the economy. In the 1990s, the new geopolitical and geo-economic drawing and the increasing opening to private and/or foreign capital did not mean a “relaxation” of the political order or a lesser state intervention in the economy. On the contrary, there was not a significant change of the Chinese political system and the State fortified its performance by means of, for example, the strengthening of large state-owned companies in many economic sectors.

Due to all the economic, social and political transformations observed since the last quarter of the 20th century, China reached the *status* of potency and emerged as counterpoint to the United States in the international system. This new Chinese position followed strong questionings and pressures of government actors, multilateral institutions, as well as of the international media around two subjects: first, the implementation of a democratic system in the country and, second, a bigger liberalization of the economy.

The views and interpretations on these two subjects were the most varied on the meaning of Chinese reforms. However, the facts remain showing that there are no perspectives, at least currently, of more radical changes both in the political sphere and in the economic one. A clear and explicit intention of the Chinese government to modify the political regimen and the state participation in the economy does not exist, much less to give up national sovereignty and the thoughts that originated CCP.

In 18th CCP Congress, carried out on November 8, the speech of Hu Jintao – that ended his administration of the country that began in – indicated the interest of the Party to continue executing reforms, but with the same political and economic structures. As Minxin Pei (2012) pointed out,

instead of ideological concessions, even if only symbolic, Hu emphatically declared that CCP will keep its ideological principles and will include among them “the thought of Mao Tse-tung”. The term, which causes fear and repulse among Chinese progressives, is not the only thing that helps to deny any illusions that the people can have on the reformist intention of the leaders. After alerting on the risk that the endemic corruption represents for the survival of the party, Hu declared that the CCP will never take the “malignant road” to change the color of its flag.

Still on this discussion, a news article of the Carta Capital magazine emphasized the importance attributed by Hu Jintao, in the same speech, to the national security of China:

Hu said that China must build 'a national defense and powerful Armed Forces that correspond to the international level of China'. He also said that Beijing must advance with the general military preparation and in the technological area of the Armed Forces in particular. According to him, the most important task of China is to be capable of 'winning a local war in the age of the information' (PRESIDENT..., 2012).

Despite interests contrary to the current standard of Chinese development and emphasizing the problems that effectively exist in the country (corruption, disrespect to human rights, among others), the CCP does not seem to believe that external formulas are capable of answering the country's challenges. These challenges, in the perspective of the Party, can only be faced with the guarantee of the national sovereignty and from an internal understanding of the social, economic, and political problems that does not include an economic liberal view and complete political opening.

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