

**REGIME CHANGE AND DEVELOPMENT IN
CHINA AND JAPAN FROM THE EARLY 1970s
TO THE LATE 1990s: AN INTEGRATED
ANALYSIS**

by

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Dedicated to my uncle Erwin

I like to say thank you to Professor Peter Preston and Professor Colin Hay for their support and their patience

Abstract

The underlying theme of this dissertation is to focus on analysing complex and incremental change by applying the concept of regime change. Only when we undertake an analysis, which focuses on changes within a specific political-economic setting, will we be able to assess the extent and dynamic of political-economic change that occurred over a specific period of time.

Regime as applied in this dissertation refers to a middle level of cohesion in the political economy of a nation state. It therefore differs from its common usage in linking a regime to a specific government or the state; as such this thesis also contributes towards generating additional awareness in distinguishing between the state, the government and a regime.

It is further argued that the concept of regime change is both specific and flexible enough to cover a diverse range of case studies. To test the application of the theoretical framework two distinctive case studies, China and Japan, were selected. The concept of regime change also informs our understanding of the complexity and particularity of specific cases and the processes of complex change they experienced, like in the cases of China and Japan.

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Glossary of main terms and abbreviation

BoJ = Bank of Japan

CGP = Clean Government Party

CCP = Chinese Communist Party

DSP = Democratic Socialist Party

JCP = Japanese Communist Party

JSP = Japan Socialist Party

LDP = Liberal Democratic Party

MOF = Ministry of Finance

MITI = Ministry of International Trade and Industry

MZT = Mao Zedong Thought

NLC = New Liberal Club

HoR = House of Representatives

HoC = House of Councillors

SDF = Social Democratic Federation

SEZ = Special Economic Zone

SOE = State Own Enterprises

TNC = Transnational Company

Introduction

The underlying focus of this thesis is on analysing complex and incremental change. Specifically, the occurrence and dynamic of complex political-economic change, that is, why it happens; what are the drivers; and how we can identify the impact of domestic and international factors in that process. Though there are many studies which focus on both the state and on change, but only a limited number appreciate the differences between the state and a regime, as for example Easton (1965) or Hay's work on state formation when analysing the evolution from the Keynesian welfare state to Thatcherism respectively (1996). Both of which representing distinguish regimes.

It is argued, that only when we undertake such an analysis, which focuses on changes within a specific political-economic setting, defined as regime, will we be able to analyse the extent and dynamic of political-economic change that occurs over a specific period of time. Regime as applied in this thesis refers to a middle level of cohesion in the political economy of a nation state. It therefore differs from its common usage in linking a regime to a specific government or the state. Hence, this thesis has two main aims: a) to add knowledge to the understanding of incremental and complex political change by applying the concept of regime change; and b) provide additional insight into the dynamic of change of two particular cases, China and Japan.

To test the usefulness of the theoretical framework of regime change in the context of analysing particular national developments, two distinctive case studies, Japan and China, were selected. The selection of these diverse case studies should also highlight

that the theoretical framework of regime change can be applied to a wide range of case studies.

As the case study on Japan will show, the state is often mistaken for a particular regime, indeed for analytical purposes it is important to distinguish between a state and a particular regime if we are to develop a deeper insight into the process of complex, incremental, political change. The case study on China provides another illustrative case, where such a distinction is of critical value. It also reminds us of a common fallacy, that analysing complex political change is often centred on the issue to what extent one political system changes towards another political system (i.e. from authoritarian rule to non-authoritarian rule). Yet, despite that such an undertaking offers valuable observations, it is nonetheless a different research agenda that will distract us from inquiries into complex political change, since complex political change does not always lead to political system change.

Without question, China's development has been exceptionally successful and saw China become the second largest economy as well as a prominent actor in international politics. What's more, China also avoided a system crisis, which characterised most of Eastern Europe and the former Soviet Union during their reform process. Yet, this success led to an intense debate about the reasons for its achievements, and the role the Communist Party of Chinese (CPC) played in this success. This directs our attention to yet another striking feature of China's reform process, the co-existence of a hierarchical and authoritarian system and the introduction of free-market instruments in generating economic development, and in which acted to provide political stability. As such

China's success presents a serious challenge to the dominance of the liberal modernization model, in which free-markets and liberal democracy are viewed as interrelated. China's success also reinvigorates another discussion, between public and private goods, between plan and market, and with it the role of the state in facilitating development.

The discussion on the role the state, of public and private goods, play in the development of the state, is reinvigorated by China's extraordinary successful reform process. However, these features of the analysis share the second case study on Japan. The Japanese case offers another insightful subject for analysing regime development and regime change and in exploring complex political development, based on its contested character as there are diverse and often conflicting characterizations of the nature of the Japanese regime and the Japanese state. In addition, the extraordinary success of the Japanese regime in facilitating a lengthy process of economic growth and modernization also add to the relevance of this case. However, the Japanese case also demonstrates how success can undermine the stability of a regime as well. Consequently, assessing both the success and failure of the Japanese state and its development model requires the application of a long-term frame of analysis, to incorporate the development of a regime, changes within a regime and eventually its demise. In doing so, we then can avoid a common failure of overly focusing on either the success or failure of a particular regime, an issue that is clearly identifiable in a wide range of analysis on the performance of the Japanese state and of its political-bureaucratic-economic regime.

In determining the nature and the extent of regime change we should follow three specific steps. The first requires the identification and examination of an existing regime and the underlining justification for its existence. Therefore, we have to identify the various constituting parts of a regime, how they interact with each other, and the instruments it uses in implementing policy. A second step will focus on the origins and nature of the pressure and dynamics of change and the impact these developments have on the ability of a regime to implement its policy and to steer political, economic, and social developments. A third step requires an analysis of how the pressure and dynamic of change in the wider environment will influence these relationships as an inability to manage this may increase the pressure on the internal relationships of a regime and consequently impact on its ability to maintain a coherent and stable regime. Focusing on these features will provide us with insights into the occurrence and dynamic as well as the extent of change we can observe over time.

In the case study on China, the timeframe selected covers the period from the beginning of reforms in late 1978 until the 16th Party Congress, held in 2002, where the CPC adopted the concept of the ‘Three Representatives’, which decrees that capitalists are allowed to join the CPC. In particular, the research will focus on the following specific developments: evaluating the changes to the public policy profile and the adaptations made in reforming the underlining consensus the regime is based on; the process of opening a former closed economy, an indication of partial structural change, introduced by the prevailing regime; and in analysing the political-economic structural change within rural China which led to both a change of the public policy profile and fundamental structural change. As such, the analysis focuses on a critical period in

contemporary China's political and economic development and examines to what extent we can identify either a regime shift (change within the established regime) or regime change (change of the regime). Yet, it is argued that we can observe a process of regime shift instead of regime change.

With regard to the Japanese case study the timeframe of analysis will cover the period from mid-1960s to the early 1990s, as this period will cover both the success and failure of the regime. It is worth remembering that the Japanese regime dealt successfully with various economic and social challenges during that period. Thus, the seeming inability of managing the challenges the regime faced from the early 1990s onwards was in stark contrast to its earlier success in responding to various challenges. Hence, as emphasised before, the concept of regime change will provide additional insight when evaluating these processes of complex change. Even as there exist a strong focus in analysing the nature of the Japanese state, with regard to its success and failure in steering economic development, it is emphasised that this represents a misperception, after all it is less the Japanese state than a specific regime which existed during that period, which facilitated a particular economic development strategy. In addition, to evaluate the regime's seeming inability to address the challenges it faced from the early 1990s onwards. Another particular focus will be on analysing the internal regime structure and related changes, as well as the constituting parts of the regime: the Liberal Democratic Party and its hold on power, and the role of the bureaucracy. Hence, it will be argued that we can identify a process of regime change (the change of the regime) instead of a regime shift (a change within the regime) in the Japanese case.

Both case studies also draw attention to the dynamic interaction of strategically acting agency operating in the context of a particular strategic environment, and consequently it will enable us to overcome a narrowly focused interpretation of complex political change, exclusively based either on the power of agency, or the omnipresence of a particular structural environment.

It should also be mentioned, that by applying the concept of regime change, our understanding of the state as a prominent structural entity, will be enhanced as well. This is because the occurrence and dynamic of complex political change, which manifests as a dynamic process of regime formation, is situated in the context of a particular state. Consequently, different regimes will react differently when faced with a crisis situation. However, it is crucial to remember that a crisis is not necessarily a situation of immediate breakdown, but indeed, it may offer the opportunity of re-interpreting or re-legitimizing existing institutional arrangements, thereby providing an existing regime with the opportunity of responding to the challenges it faces.

The relevance of the state as a structural, but not infinite, entity is also underlined as the state remains in place, despite the changes within a regime and even when a particular regime fails. Hence, we will be able to observe regime change without the dissolution of the state, yet regime change can have an impact on the particular structural configuration of a state. Consequently, we are able to examine varied processes and dynamics of complex political change during the process of state development.

Existing variations of state-society and state-economy relations demonstrate explicit domestic arrangements, based on institutionalized compromises, informed by particular circumstances at a specific historical moment in time. Therefore drawing attention to the crucial importance of a particular national environment for the occurrence and dynamic of complex political change consequently indicates the particular relevance of the agency-structure interaction for political dynamics.

Thus, applying the concept of regime, as it is understood in this thesis, offers a distinctive approach for investigating complex political change. Such an approach has its merits as the investigation into complex political change is directed at specific regimes within the state, instead of the state as a whole, consequently acknowledging the existence of a divergent causal process of complex political change within a particular state. In doing so, it not only avoids a common misperception between the state, system type and regime, but also will address a common fallacy, when analysing complex political change; namely, that analysing complex political change often focuses on the extent a particular political system changes towards another political system (i. e. from authoritarian to non-authoritarian rule). Therefore, in the context of this research, the extent to what one political system is changing towards another political system represents a different research agenda.

Both case studies also alert us to the challenges involved in analysing complex political development as well as in applying some of the established criteria for political analysis, like the state-market dichotomy. Despite that their continued relevance as analytical tools is still widely accepted, they do not fit well with the complex reality of

political dynamics studied in these cases. Indeed, these cases challenge various established positions of economic and political development, the role of the state in facilitating economic growth and development in general.

As such the concept of regime change acknowledges the complexity and particularity of specific cases, of a particular national structural environment, and consequently of national specific process of state and regime development.

The thesis is divided into four parts with 13 chapters.

The first part outlines and describes the theoretical framework, it also discusses the different applications of regime within the academic community, especially with regard to the transition literature, by delineating the way regime is applied in this research from other applications in academic research. Chapter 1 focuses on the different interpretations of regime change; whereas chapter 2 defines the concept of regime change as applied in this thesis, directs our attention towards the relationship between the state and a regime as well as the nature and dynamic of change; chapter 3 presents the research design and research strategy with reference to the two case studies.

Part two includes chapters 4-7 and assesses the first case study: China. China's economic success and political stability during the process of reform defies various established assumptions about reform processes. Avoiding a fundamental system crisis which characterised the reform processes in Eastern Europe and the former Soviet Union, China's gradual and pragmatic reform approach is also distinguishable from a

‘shock therapy’ approach. It also challenges the assumption that a reform process towards a liberal market system would require a pluralist political system. To begin with, chapter 4 identifies the underlining features of the Chinese regime and the pressure for change. Chapter 5 focuses on the reform process and the implications for regime change; whereas chapter 6 examines the dynamic of change within rural China. Chapter 7 then will summarise and evaluate the findings of the Chinese case study.

Part three, comprising chapters 8-11, focuses on the Japanese case study. Providing another insightful example for complex political change, and for analysing regime development, the Japanese state generated a diverse range of response to analysis of its particular nature. Yet, it should be emphasised, that such studies failed to distinguish between the state and a particular regime, as such it provides an excellent case for applying the concept of regime change as advocated in this thesis. In addition, the Japanese case also highlights that success too can undermine a regime. Chapter 8 provides the first step in identifying the regime, and focuses on issues related to the nature of the Japanese state; the role of the bureaucracy and the regime’s mode of intervention in economic planning and its limitations. Chapter 9 presents an evaluation of the underlining character of the Japanese regime with a particular focus on the political system and the Japanese party system. Chapter 10 assesses the success and challenges of the regime; with chapter 11 examining the fundamental challenges the Japanese regime faced and its failure to manage them. Chapter 12 provides a summary of the findings of the Japanese case.

Finally, part 4 provides an evaluation of the two case studies in the context of applying the concept of regime change, and the importance of making a distinction between the state and a regime; the continued relevance of the state, and that both the state and a regime constitute major structural entities for strategic actors. However, it also reminds us that a crisis situation does not merely represent a situation of imminent breakdown, but rather a strategic moment in state and regime development.

THEORETICAL FRAMEWORK

Chapter 1: Regime Change a contested concept

Applying the concept of regime change as the focus of analysis requires a number of specifications and clarifications. Since there is a strong, but not exclusive, association and a particular application of both regime and regime change, a first step requires distinguishing between these different applications in academic research.

1.1. Regime and Regime change and their common academic application

To begin with, one can identify a widespread application of regime in describing a particular political system within the political science literature and especially within the transition literature which tends to focus on the transition from authoritarian rule to non-authoritarian rule. In this usage, regimes are closely associated not only with particular kinds of political (authoritarian) rule, but equally with the government as such.

The examples are many. Levitsky and Way (2006) apply this particular meaning of regime and regime change in their work on the international dimension of democratization in the post-Cold War era. Epstein et al. also apply this particular understanding of regime and regime change in their work on democratic transition from authoritarian to non-authoritarian rule (2006). As does Huntington in his work on democratization, in applying regime to both democratic and non-democratic rule alike,

yet with an emphasis that various different forms of authoritarian regimes can be identified (1991). Rose and Mishler apply both concepts in evaluating the political change observable in Eastern Europe from the 1989 onwards, highlighting the replacement of a number of authoritarian regimes with pluralistic regimes (1994, p.160).

This particular application and association of the term regime with the government and a particular political regime is also identifiable in various academic dictionaries like McLean's and the McLean and McMillian, in which they state that regime comprises a system of government or administration, which can be monarchical, aristocratic, republican, or tyrannical in its nature, adding that the most recent use of regime is linked to military regimes (2009, p.454). Equally, Roberts states, in his dictionary of political analysis, that 'a regime is the term used to refer to the particular form of government which is possessed by a polity' e.g. parliamentary, totalitarian, republican. However, Roberts also makes a reference to an alternative use of regime by Easton, who distinguishes the regime from authorities who constitute the government (1971, p. 186). This provides an indication of an alternative application.

Moreover, Gasirowsky also relates his work on regime change to the transformation of political rule, yet in both directions, from authoritarian to non-authoritarian rule and vice versa (1995) and strongly associates regime with the political system of a state. Nonetheless, his emphasis on economic performance, or miss performance, as the potential cause of a crisis and the probable source of regime change, does provide another link to the understanding of crisis and its potential impact on regime change as applied in this thesis. Similarly, Bratton and Van de Walle, although focusing on the

transformation from and to authoritarian rule, in the context of political developments in Africa during the early 1990s, interpret regime as a set of political procedures, which determine the distribution of power (1997, p.9); this provides a further connection with the use of regime in this thesis. As does their understanding of regime transition: 'a regime transition can be depicted as a struggle between competing political forces over the rules of the political game and for the resources with which the game is played' (1997, p.10).

Though regime is widely used in identifying both a particular political system and a specific style of government, we can appreciate an alternative approach to the characterization of a regime, that although representing a somewhat heterodox analysis, this in turn provides a link to alternative interpretations of regime and regime change in political science research and how regime is applied in this thesis. This will be the focus of the subsequent section.

1.2 Variations in the understanding and application of regime

Drawing on the above mentioned alternative understanding, this section will further highlight the existence of variations in the understanding of regime and its applications in describing either the political system or a government that are identifiable within the transition literature.

As already indicated above, Easton, for example distinguishes between political community, regime and authority when referring to a political system (1965, p.219) by

highlighting the various features of a political system, and consequently offering a different association of regime with political system as in its more common usage. Easton further describes regimes ‘as a set of constraints on political interaction’ (1965, p.195). This aspect of constraint and access to the use of political power is related to the concept of regime as applied in this thesis and I will return to it in the following section. Equally, his evaluation of a regime’s decision-making power¹, which forms a prerequisite for a successful regime, also overlaps with how regime is applied in this thesis. Alike, Kitchelt’s understanding of a regime, also emphasizes that a ‘regime may be defined as the rules and basic political resource allocation according to which actors exercise authority by imposing and enforcing collective decisions on a bounded constituency’ (1992, p.1028).

Charlton also presents a view of regime which provides an alternative interpretation by identifying regime types with a reference to the economic system; that is, classifying them between advanced capitalist systems, centrally planned systems, and an economically underdeveloped system. Within this conception a regime is based on specific institutions and particular actors acting in the context of a distinct institutional setting, which in itself is the result of historical processes during state formation.² Interpreting regime in such a way offers a valuable illustration of how to apply regime as an alternative concept. Snyder and Mahoney enhance both the space for an alternative understanding, as well as a link with the understanding of regime as applied in this thesis, by maintaining that a regime comprises the formal and informal

¹ See chapter 12, in Easton, D. (1965) *A systems analysis of political life*.

² See chapter 1 in Charlton, R (1986) *Comparative Governments*.

institutions which structure political interaction and consequently influence the strategies of those who seek to influence political development (1999, pp.103-4).

Chazan et al.'s interpretation of regime adds to these alternative views, by bringing us closer to the nature of regime as applied in thesis, in their emphasis, that a regime is less about absolute power, and more about how power is actually used. Consequently, a regime does not represent the political system as such, but is rather one part of it (1992, p.27). This is a theme taken up by Lawson as well, who questions why very few attempts are made to examine regime as distinctive from state or government. Further arguing that a conceptual distinction between state and regime can be made by reference to where political power is located as opposed to how that power is exercised. Whereas the state comprises the locus of power, a regime indicates how power is actually used (1993, p.187).



Hence, we can not only identify alternative applications of the concept 'regime', but equally importantly we can identify that a connection is made between a regime and its impact on agency, by emphasising its structural selectivity, an important subject to which we will return in the next section. However, having introduced several issues related to regime already, developing a specific understanding of the concept of regime as applied in this thesis is crucial before proceeding with an evaluation of the impact of change on a regime. This will be the task of the following chapter.

Chapter 2: Regime Change – defining the concept

As the previous sections already indicate, applying the concept of regime change as the focus of analysis requires a number of clarifications to avoid misunderstandings. The above section represents an initial attempt to describe the usage of the concept in the political science literature. However, a second step focuses on the description of a regime in its alternative use as it is applied in this study. This is an essential task because not only can we observe few attempts to identify a regime as distinct from state and government, but equally, this should also inform the readers' understanding of the alternative interpretations of the concept of regime, as applied in academic research. This also requires an examination of the nature of the state, since it is the state that provides the structural framework for a regime. In addition, the nature, dynamic and extent of change require our attention as well.

2.1 Defining the concept of 'regime'

Following the above inquiry of the various understandings and applications of regime and regime change, the task of specifying the precise meaning of the concept of regime is to avoid one of the most common misconceptions, that is to associate it either with a specific government or with the state. Consequently, this section focuses on the following tasks:

- identifying a regime and its specific nature
- highlighting its distinctiveness from the state and the government
- illustrating that regime represents a structural framework for strategic actors

To begin with, it should be emphasised that a regime, in its alternative application, represents a particular structural entity providing a structural framework, for political, economic and social actors within the context of the state. In that the impact of a regime is comparable to the impact the state has as a structural framework, though it is essential to recognise that the state provides the structural environment for a regime, as the state comprises the more permanent structural entity. Though, it should be mentioned that the state, as the dominant structural entity, does also undergo structural alterations, a topic I will return to below, when evaluating the nature of the state. Hence, even as state and regime are analytically distinctive concepts, they are related to each other, as the particular nature of a state will inform the dynamic of regime formation and regime change.

Thus, regime in this alternative application, as emphasised by Fishman, should be considered as the formal or informal organisation at the centre of political power, determining who has access to political power. The specific distinctiveness of a 'regime' is illustrated by its characteristic as being a more permanent form of political organisation than a specific government, but typically less permanent than the state (Fishman, 1990, p.428). Pempel also stresses that a regime neither refers to a government nor the state. Instead, he describes a 'regime as a middle level of cohesion in the political economy of a state', adding that it refers 'to the shape, consistency, and predictability of its political economy over time' (Pempel, 1998, p.20).

Hay also provides us with an alternate description of regime, by identifying regime as a particular level of stateness. He describes a hierarchic order of stateness, with the state

at the most general and abstract level; followed by the state form, the specific type of a state (e.g. capitalist, feudal etc.); the state regime, which constitutes a certain and more concrete stage in the evolution of a state form; and finally, state structure that is identifiable in the specific institutional structures of an explicit state formation (1996, p.12). Hence, a regime therefore represents a particular expression, in the on-going process of state formation and state development. Hay also offers illustrations of particular regimes and regime change in highlighting that both the British Keynesian welfare state and later Thatcherism represent two distinctive examples of regime formation in the context of the evolution of the British state (1996, p.14).

By identifying the Keynesian welfare state and Thatcherism as distinct regimes, and with it the particular political economic approach these two regimes represent, we can identify another link to the way Fishman and Pempel identify a regime. That is, in the consistency and predictability of a particular political economic setting. Identifying a regime in this way, Hay's approach also overlaps with what Pempel describes as the key elements of a regime. Pempel argues that a regime consists of three key elements - a socio-economic alliance, political-economic institutions, and a public policy profile. However he continues to argue that tangible interests, embedded in economic and material interests are of equal importance and stable regimes are characterised by consistent mutually reinforcing relationships among these three elements (Pempel, 1998, pp.20-1).

However, we should be aware that a regime does not appear on its own, as the occurrence and continuation of a 'regime' relates to a specific ends - the use of political

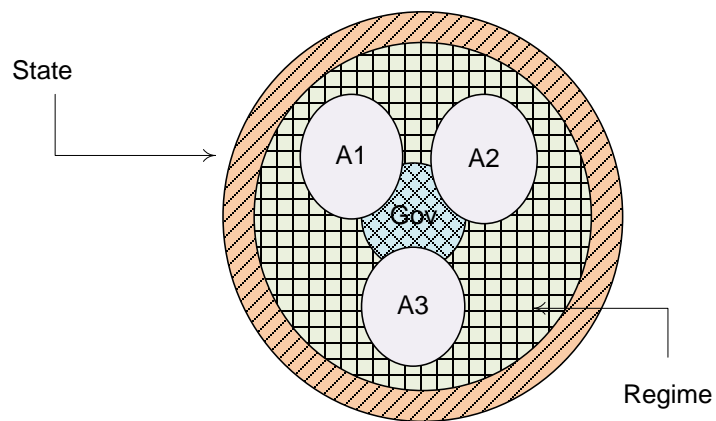
power for the benefit of the participants involved. It is worth remembering, as emphasised by Archer, that all socially structured positions reflect vested interests, which are embedded in them (Archer, 1995, p.203). By analysing the internal regime structure and a regime's interactions within the state-society relationship, we can discover important features of the *modus operandi* of a 'regime' and its linkages with the state and the socio-economic environment.

Ilchman and Thomas analyse the political environment in terms of sectors (reflecting religious, geographic, cultural, social or purely political interests). Sectors differ on the basis of their interests, in the degree of their organisation, as well as their resource position and its composition. Consequently, they possess a differing quantity of economic goods and services; information; legitimacy status for the regime; financial resources; support, allegiance and threats (Ilchman and Uphoff, 1998, pp. 39-40). This in turn will ensure to what extent a specific sector's interests are considered by decision makers, therefore reflecting the influence a specific sector wields in manipulating or determining the public policy paradigm. Ilchman and Thomas's view of political exchange emphasises the process character of politics, and the interrelated dynamic between the different subsystems - politics, economy and society - of a state. This resonates with Pempel's argument about the competition influencing and determining the public policy paradigm, which in itself is an important aspect of a regime.

Here we can identify an important correlation between the interests of specific sectors with the underlining features of a regime, as described above, since a particular regime is based on the specific interests of its members, and a distinctive public policy profile.

Consequently, a regime will reflect the particular interests of important sectors within a state. However, a regime may have to induce economic and social change itself when responding to domestic or international developments and challenges. Figure 1 provides an illustration of a regime (based on three actors), its relations to the state and the government.

Figure 1- Identifying a regime: State, Regime, Government (Ploberger 2012)



A regime's ability in mobilising the resources it needs from different sectors provides an indication of its strength and the extent of the legitimacy it enjoys. We may observe, as Cerny notes, that semi-private goods are not only significant in the industrial policy domain, instead they provide the substance of politics itself (Cerny, 1990, p.75).

Even, as pointed out before, that a regime comprises the interests of its members, a regime needs to be seen as legitimate by the parts of the state and society not involved in the regime. By considering the example of regime change provided by Hay, a change

from the Keynesian welfare state to Thatcherism would be hardly possible, if there would not exist some kind of acceptance within the wider society for such a change, but it does not require unqualified agreement from the whole society. Yet, in bringing about such a change, the new regime has to offer some alternative, acceptable prospects. Consequently, a regime's legitimacy is linked with its ability to deliver on its promises, whether they are political, economic or a combination of the two. As emphasised by Lipset:

Legitimacy involves the capacity of the system to engender and maintain the belief that the existing institutions are the most appropriate ones for a society (1960, p.77).

However, it is important to recognise, as maintained by Barker, that legitimisation is an active political process, as politics itself is an energetic and on-going process (Barker, 2001, p.28). Hence, if the perception of poor performance increases, a regime's legitimacy may be undermined, reminding us that legitimacy exists within a specific historical and political context. Consequently,

legitimacy of states and of political arrangements should be seen as part of a complex set of social and economic values [as] the distinctiveness of the political is dissolved in the wider sea of society, social formation, or overall value system (Barker, 2001, p.21).

Analogously Horvat argues that:

If an increasing number of people are dissatisfied with work and life, the institutions cannot be the most appropriate ones. And if the institutions fail to function properly, the value configuration of the community must have changed (Horvat, 1979, p.93).

The acceptance of a regime and the related institutional framework are linked to the expected performance from within the society and economic actors. North emphasises that existing institutions indicate the 'rules of the game' within a society, thereby shaping human interaction and the choices available (1999, p.3). If these expectations are not met the political legitimacy of these institutions and of the regime itself will, over time, be undermined. Considering the dynamic nature of political legitimacy, guaranteeing continuous performance holds a prominent function for a regime.

Another analytical implication in identifying a regime as distinctive from both a government and the state arises when we are confronted with a non-democratic setting. A particular issue relates to the analytical separation between a government, a regime and the state, which is less applicable in the case of non-democratic rule. Take for example the case of a one party rule, where all political power is centred on and legitimised by a particular political party. Hence, the existence of some kind of political space between a government, a regime and the state, which can be identified within a democratic setting, is of lesser significance or may almost be non-existent within a non-democratic political setting.

This carries important consequences for the occurrence and dynamic of regime change, since pressure for regime change or regime alteration, of which the particular nature of these different changes will be addressed below, could raise serious questions about the existing political dominance of the party in power and by extension to the very nature of the state. The implications are that a regime within a non-democratic setting is rather more resistant towards the kind of partial, on-going change we can observe within a democratic setting. This in turn has fundamental implications for the dynamic of regime formation and regime change, as resistance to continuous adaptations and partial change could result in the accumulation of pressure and consequently can lead to a rather abrupt process of adaption at a later stage. Resistance to partial adaption may contribute to the development of what Gao classifies as an ‘intrinsic dilemma’. An ‘intrinsic dilemma’, he argues, is a sign of built-in contradictions in the institutional logic, and can develop over time, thereby reducing an institution’s capacity to respond and to manage new challenges generated by a changing environment (Gao, 2001, p.10).

Identifying a regime, whether within a democratic or non-democratic state, relates to the important aspect of actor designation. Frey argues that actor designation has been central to political thought as it underlies our conception of particular political systems and our perception of political structures. In this way, actor designation has an impact on the nature and outcome of any investigation (Frey, 1985, p.129, 131). Speaking of groups as political actors, there are related concerns as to what extent a group is capable to speak with one voice in order to enhance its bargaining power in negotiations with other social actors and the government. In this regard, we may consider Habermas’ argument that a group actor represents a collectivity, that can ‘be regarded as an

individual' (Habermas, 1977, p.3). Yet, Frey further argues, that 'it is obviously, neither feasible nor necessary that every actor designation be global. Many useful designations will remain specific to a particular system-type' (1985, p.139).

This is a critical topic of regime formation and the dynamic of regime change since a particular regime develops in the context of a specific state, hence following a generalization of actor designation would in practice not only be inappropriate, but indeed would lead to a misperception of the very nature of a regime; this is because a regime constitutes a particular constellation within the political economy of a state at a certain period of time. Hence, the particular set of actors who make up a regime will undergo change during the process of regime change, consequently actor designation can neither be global with regard to different case studies, nor within a particular case when regime change occurs. However, it should be reiterated that the concept of regime in its alternative form, and as advocated in this thesis, provides a specific focus for investigation which can be applied to a wide variety of case studies as it has an inherent flexibility in actor designation. The constellation of actors will change not only with regard to different states, but also when a particular regime undergoes a structural change.



After having outlined the specific character of a regime, identifiable as a particular structural entity within the structural framework of the state, that provides the context for a particular regime to develop and to exist, the very nature of the state and its

continuous relevance as a structural entity comprises a further essential category. This will be the topic of the following section.

2.2 The State as a basic structural variable for regime formation

In emphasizing that the state provides the more permanent structural entity and thus the framework for a regime, it is therefore essential to develop a firm understanding of the nature of the state and to address to what extent a state continues to comprise an important focus for analysing complex political change. To that end, the following topics will be examined:

- how we interpret the nature of the state
- the state as a determining structural entity
- whether or not state structures are static
- the role of the state in national development

Even as few would doubt that the notion of the state is central to social, political and economic analysis, nevertheless, in its popular understanding, most commentators and analysts seem to be certain what the state represents, in a more or less abstract sense. However, there is less agreement on how to define the state within academia. This disagreement may reflect the huge variety of empirically observable variations and structural differences of existing states, identifiable, at a more abstract level, by reference to a particular political system - republican, monarchist, authoritarian - or based on a state's involvement in the economy - capitalist, plan-rational, or socialist.

Without question, one could identify different criteria for distinguishing states from each other. Even so, it is still possible to identify a range of characteristics that states have in common, yet they may exist in different variations. Among them we can classify the following components: bureaucracy; legislative system; legal system; army and police; territorial boundaries; sovereignty; coercive capacities and an array of distinctive structural institutional settings.

Even so, the observable variety of the state still raises fundamental questions of how we interpret the nature of the state, either as a static unit or as a social construction. The implications are critical, since it will not only have a significant impact on how we perceive the dynamic of political change, but equally for our understanding of regime formation and regime development.

In interpreting the nature of the state there are a variety of approaches that exist. For example, Poulantzas argues that the state is the material condensation of relationships, based on the outcome of power struggles within the state (1978, p.144). Jessop speaks of 'state projects' discerning the state as both a site and an object of strategic elaboration. By stressing the relational character of the state, he emphasises that the state as a variable institution can never be considered to be neutral. Instead, we should interpret the state as a manifestation of the power of social forces, acting in and through it (1990, pp.9-10). Indeed, interpreting the state in such a way echoes Cerny's assessment, that the state provides the contextual framework, on which other agents strategically and tactically orient themselves (1990, p.29). North too, highlights the relevance of the existing state structure, as political, economic, and social actors

strategically orientate themselves in the context and logic of the existing state structure. North classifies these state structures as an institutional matrix (1999, p.12). Similarly, Hay and Lister emphasise the structural and/or institutional contextualization the state provides for political actors, as well as the historical contextualization of political behaviour the state offers (Hay and Lister, 2005, p.12).

Therefore, we should no longer consider the state as a neutral institution; indeed, it becomes apparent that the specific character of a state favours a particular state form, as a certain state structure is more suited to the pursuit of a specific type of economic or political strategy. For example, within a socialist state, a free-market approach in organising economic activities would hardly be a political or economic option. Hence, the specific character of a state limits the options available for organising and steering economic activities as well as determining the state-society relationship. As such existing state structures have determining consequences for future developments, by, at least to some extent, re-creating the main lines of the existing state structures. This in turn highlights that the state is a major structural entity with fundamental implications for other actors.

Though, even when acknowledging the impact the existing state structure has for future developments, Cerny reminds us that the state structure should not be interpreted in a static way. Indeed, one can identify an on-going process of transformation within the existing state structure - the political process and processes of interrelated dynamics between the political and the socio-economic environment – what Cerny refers to as structuration (Cerny, 1990). Jessop describes this impact as a state's selectivity, arguing,

that a given type of state will be more accessible and suited to the pursuit of certain types of economic and political strategy than to others, accordingly to its modes of intervention (1996, p.10). Jessop further argues that the state represents a strategic terrain, the crystallization of political strategies, and consequently offers structural privileges to some but not all political strategies (1996, p.207).

Crouch and Streeck, also emphasise the impact a particular national context has by identifying various sources that underline this diversity, among them: 'state traditions', formal associations, and informal communities and networks (Crouch and Streeck, 1997, p.1-3). This manifestation of specific nationally influenced trajectories of state developments also has fundamental implications for regime formation and regime development, as both processes are influenced by a particular national and historical context.

Hence, by considering the state as both the manifestation of the power of social forces and its relevance as a structural entity in contextualising the strategic action of actors, it becomes apparent that we can observe particular national processes of development, which is highlighted by the observable diversity of state-market and state-society relationships. Consequently, this diversity of state development stresses, that the process of structuration provides the very dynamic for regime formation and regime development. After all, the particular nature of a state will restrict the options available for regime formation and regime development.

Taking into consideration the specific national process of state formation, Johnson provides additional insight by asserting, that we can identify the existence of various sources of legitimacy which bind a state with society. By comparing the American state with the Japanese state, he points out that whereas the American state is legitimised by its processes, the Japanese state is legitimised by its achievements (c1995, p.67). This example may remind us, as argued by Evans et al., that a grand theory of the state is inadequate when trying to improve our understanding and conceptualising the structures and activities of states situated in various social and transnational settings (Evans et al., 1985, p.348, 363).

When considering the nature of the state as outlined above, the familiar discussion of the state versus the private sphere may no longer be applicable in the way it was previously. Cerny highlights the importance of overcoming this rigid division between private and public, emphasising that politics always involves a mix of private goods, public goods, and a range of in-between categories (1990, p.63). Consequently, stressing that politics involves a dynamic mix of market and government, markets and hierarchies no longer should be viewed as opposing principles of efficiency, but instead as complementary, mutually reinforcing each other (Cerny, 1990, p.71).

Evans, also observes that rather than debating the extent of state intervention in economic affairs, it would be more appropriate to ask ‘what kind of state intervention would support the increase in state performance?’ (1995, p.10) He distinguishes between four different roles of state interventions: *custodial*, refers to the regulatory role of the state; *demiurge*, identifies the state in a more general role as a producer (goods

or/and capital); *midwife*, denotes the function in which a state attempts to assist in the emergence of new entrepreneurial groups or to encourage existing ones to embark on more challenging forms of production (generating or fostering investments in advance technology); and *husbandry*, in which the state aims to assist to meet global challenges in the development of leading national industries (Evans, 1995, p13).

However, Skocpol reminds us that a state's capacity is neither a fixed feature, as the underlining structural potentials change over time, nor is it evenly distributed across various policy fields (Skocpol, 1985, p.14, 17). As Weiss and Hobson argue, state capacity requires the coexistence of an insulated and loyal bureaucracy, an embedded state-industry network, and of encompassing industrial organisations (2000, p.23).

Yet, an existing regime will certainly restrict the capacity of the state, as the regime itself is an embodiment of capacity, yet the state continues to provide the structural environment for a regime. Nevertheless, the capacities bundled in a regime will principally be employed to implement the objectives of the regime, thereby restricting a state's capacity. After all, if a regime begins to lose its capacity to implement the goals it stands for it is in danger of becoming irrelevant.

Again, even though we can identify a distinction between the state and a regime it becomes apparent that by providing the framework within which a regime can exist, a specific state and a particular regime are intimately related to each other, as a certain state is more suited to the pursuit of a specific economic or political strategy, than another state.

Consequently, the state is not only a structural variable for other actors and thus continues to play a central role in political, economic and social change by contextualising political behaviour, but equally, the specific character of a state and the different capacities of a state to intervene and influence economic performance and societal developments has a direct relevance to the formation and structuration of a particular regime. Therefore, the state provides the structural framework for the development and existence of a particular regime, and it thus becomes apparent, that a state and a regime are intimately related. In this regard, it is vital to remember that the state forms the locus of power, whereas a regime indicates the way in which this power is actually used.



However, both a state and a regime are confronted by developments within the international political and economic environment, thus the extent the process of globalisation renders the state's ability of providing a structured field for policy obsolete, becomes a fundamental issue. By occupying this intersection between the domestic and the transnational, the state has to bear great pressure, which can have an impact on the dynamic of regime formation, regime stability and ultimately regime change. Therefore, evaluating and identifying the impact globalisation has on the political-economic development of the state and on state autonomy is a further important topic.

2.3 Changing political space: globalisation and the enduring relevance of the state

Since the globalisation thesis contends that the autonomy of the state has been irretrievably undermined, this represents a contentious debate, and it also carries implications for regime formation and regime development. A central issue is linked with our very understanding of the nature of globalisation as this will inform a variety of opposing interpretations of the appropriate role of the state and to what extent the state is still seen as relevant. Hence, this sub-section will focus on the questions:

- has globalisation rendered the state obsolete
- how can we ascertain the nature of globalisation

To start with, a common assessment refers to the occurrence of a ‘borderless economy’, and the ‘end of territory’, signalling the dawn of a ‘global area’ where the state is replaced by markets, thereby losing almost all of its relevance. Hence, the argument maintains that globalisation has either undermined or rendered the state obsolete especially when focusing on the state’s ability to steer and foster economic development. In this regard it is pointed out that globalisation manifests through global finance, global production networks, global sourcing and ‘country hopping’, to name a few. These indicators highlight the growing pressure the state faces from increasing globalised production processes and a supposed globalisation of markets, consequently raising questions about the on-going relevance of the state and its ability to facilitate economic development.

However, the debate harbours advocates, at the one end of the scale, who argue that the state has indeed become obsolete (Ohmae 1995) whereas Hirst and Thompson (1995) argue in favour of the on-going relevance of the national state. Still other positions within this debate stress that what we experienced is in reality a transformation of human geography (Scholte, 1997). Adding to this array of assessments, one may consider that the state is as relevant as ever, as not only do corporations still have to operate within national, regional and international regulatory systems, but markets too depend upon the regulatory power of states to function properly. What's more, based on the above evaluation of the nature of the state, it should be remembered that states are not unitary, monolithic, structures, thus their response to the challenge of 'globalisation' can vary considerably.

Thus, an examination of the nature of globalisation is not a straightforward exercise, as we can observe a variety of conflicting interpretations. Scholte for example points towards three common understandings of globalisation:

The first identifies globalization as an increase of cross-border relations.

The second treats globalisation as an increase of open border relations. The

third regards globalisation as an increase of trans-border relations (Scholte, 1997, pp.430-1).

Whereas Held et al. conceptualise three distinctive approaches of globalisation, in pointing out that advocates of the Hyperglobalization thesis are

arguing that economic globalisation is bringing about a denationalisation of the economy through the establishment of transnational networks of production, trade and finance. In this borderless economy, national governments are relegated to little more than transmission belts for global capital or, ultimately simple intermediate institutions sandwiched between increasingly powerful local, regional and global mechanism of governance (Held et al., 1999, p.3).

Whereas the sceptical thesis

maintains that contemporary levels of economic interdependence are by no means historically unprecedented and consider the hyperglobalist thesis as fundamentally flawed and politically naive since it underestimates the enduring power of national governments to regulate international economic activity (Held et al., 1999, p.5).

With regard to the debate to what extent contemporary globalisation is a unique development, Held et al. point towards the transformation thesis, which suggest that

contemporary processes of globalisation are historically unprecedented such that governments and societies across the globe are having to adjust to a world in which there is no longer a clear distinction between international and domestic, external and internal affairs (Held et al., 1999, p.7).

It is the last characterisation, which presents the biggest challenge to the state, as the significance of borders seems to have been eroded completely. Still, the question remains, to what extent we are living in a truly ‘transnational’ global era, characterised by processes of transcending national borders? Evidently, while the revolution in communications and transport technologies significantly re-defined distance and with it territorial space, even so, Held et al. argue that the discussion about the nature of globalisation and especially the sceptical voices within this debate should be a reminder

that international or global interconnectedness is by no means a novel phenomenon. Yet they overlook the possibility that the particular form taken by globalisation may differ between historical eras (Held et al., 1999, p.17).

Adding that

historical forms of globalization refer to the spatio-temporal and organisational attributes of global interconnectedness in discrete historical epochs (Held et al., 1999, p.18).

In highlighting the differences between earlier and contemporary processes of internationalisation Dicken’s distinction between *shallow integration* – characterised by trade in goods and services between independent firms and the international movement of portfolio capital – and a *deep integration* – characterised by transnational production networks of transnational corporations is useful. Dickens argues that it is important to

distinguish between *internationalisation processes* reflecting merely a quantitative process (the extension of economic activities across national borders) and *globalisation processes*, a qualitatively different process (involving the functional integration of international economic activities) (Dicken 2003, p.10, 12).

This impression of an increasingly deep integration, fuelled by specific trends over the last twenty to thirty years, indicates that the state is losing its grip on the economy. Held et al. argue that it is the density and degree of institutionalisation of global networks, of trade and financial volumes crossing borders, and the emergence of regional and global governance that make the contemporary era unique (Held et al., 1999, p.428).

Even as national instruments did become weaker, as some of the well-known instruments for influencing macroeconomic policies (monetary policy, fiscal policy, anti-cyclical growth policy) based on either Keynesian economic theory or monetarism, to influence the growth and inflation rate or addressing changing unemployment rates in times of recession, to name a few examples. Even as such instruments did lost some of their influence for the generation of economic prosperity, yet they are still a reminder of the influence of state-specific policy making.

Hirst and Thompson, however, argue that it is curious that companies should wish to be 'trans-national' in the sense of extra-territorial, as the national economic bases from which most companies operate actually contribute to their economic efficiency. Companies benefit from being integrated in networks of relations with central and local governments and in a national system of skill formation (Hirst and Thompson 1995,

p.426). In doing so, they contradict a familiar argument presented by the 'hyperglobalist' approach, that a company can and will relocate its production at will, mostly in response to changing labour costs. Even as this may hold true for particular industries, like the shoe and textile industries where labour costs are disproportionately high in the overall manufacturing costs and the qualification of the workforce is of lesser concern, this does not apply to other industries, where additional factor costs such as capital, knowledge, human resources and a well-developed modern infrastructure are of importance for a company's domestic and international competitive strength. Thus, territory and with it the national provision of specific factors and conditions, based on domestic policy processes and informed by specific institutional settings, still matters and with it the state.

Hirst also points out, that only a few transnational corporations (TNCs) are truly transnational in nature. Instead, he argues, most of the TNCs are operating from a distinct national base, rooted in a major market. Furthermore, a truly transnational company would be far too vulnerable to political pressure, as it neither has the comfort of a well-established home market, nor the political influence that comes with it (Hirst 1997, pp.418-9). Porter, too, emphasises that geography still matters, as the home base of an international operating company still counts to a great extent, since the domestic environment reflects a company's ability to export; the strength it gained in the home base, therefore, globalisation does not undermine the role of the home base for the success of a company, but it changes its character (Porter, 1990, pp.69-71).

2.3.1 Global Markets, global production networks, global competition and the saliency of territorial space and state capabilities

As already discussed above, interpreting the impact globalisation has on the state is neither a straightforward undertaking nor has any consensus emerged yet. This also applies for the topic as to what extent a specific sphere of national path of development still exists.

The lasting relevance of ‘national politics’ is also emphasised by Zysman, in highlighting that distinctive national systems of innovation are not only national in character but also shaped by a particular marketplace which rests on specific institutional foundations created by politics and driven by the interplay of national governments and national markets; thereby generating distinctive national market logic (Zysman, 1996, pp.169-170, 181). Porter also suggests that the competitive advantages or disadvantages of a nation is based on a nation’s ability to manipulate and enhance the domestic environment. He then points toward four specific features of a nation’s competitiveness: factor conditions; demand conditions; related and supporting industries; and firm strategies. These four factors together, constitute what he describes as the national ‘diamond’. This ‘diamond’ is a mutually reinforcing system, Porter argues, as the success of a nation depends not on isolated industries, but on clusters of industries with vertical and horizontal relationships (Porter, 1990, pp.71-73). These assessments provide a further indication that a space remains for domestic agency in creating national comparative advantages.

Closely linked with this variety of distinctive national trajectories of development is the ability of a regime to formulate and implement a coherent economic and industrial policy. Doing so successfully is not only of importance for generating economic development but also political and social stability, and consequently will have a positive impact on a regime's stability, its internal coherence and on the extent it will be perceived as legitimate within the wider society. In identifying a state's, or a regime's capacity, in directing economic development we can observe that the transformation capacities of states and regimes differ. As individual states and regimes possess different transformation capacities, some states and regimes will be in a better position to deal with and adapt to external shocks and pressures in the process of industrial change than others. Moreover, it is apparent that distinctive national systems of innovation, to use Zysman's expression, that is, the particular provision provided by a certain government, again highlights that there continuous to exist a space for national involvement in factor generating and government involvement in economic affairs.³

Government interferences neither necessarily limit national competitiveness nor increase the attraction of a specific place. It rather depends on a regime's decision-making capability and its ability to implement an agreed strategy. It is equally important for a regime to have the capacity of gathering information for future economic, and particular industrial sector developments. Hence, formulating and implementing an industrial policy, relevant to the specific domestic challenges faced, is a critical topic.

Itoh defines industrial policy as

³ In regards to production networks, Dicken points out, that the production of any good or services can be perceived as a production chain: a linked sequence of functions, in which each stage adds value to the good or service. Yet, their increasing transnational character is observable in the configuration of a multiplicity of geographic scales, extending and interlinking the local with the global. See Dicken (2000) *Global shift*, p. 14, 29.

a policy which affects the economic welfare of a country by intervening in the allocation of resources between industries (or sectors), or in industrial organisation of specific industries (or sectors) (c1991, p.4).

Wade distinguishes between horizontal and sectoral industrial policy. Whereas the former focuses on the overall improvement of the economy, the later focuses on specific and selected industries and the generation of competitive advantage, with the intention to produce a different national industrial profile, compared to a situation without state interference (Wade, 2004, pp.12-13). This description is to some extent echoed in Callon's definition of industrial policy, which he describes as 'government policies to improve the relative competitiveness of specific domestic industries or industrial sectors', emphasising that 'it is this sectoral focus that distinguishes industrial policy from national economic policies' (Callon, 1995, p.4). Evidently, a specific industrial policy requires not only a national consensus on its policy objectives, but equally, the acceptance of its indented outcome. The impact of an existing regime on the formulation of an industrial policy will be strongly felt as a regime will try to incorporate the interests of its members in the formulation and focus of a new or revised industrial policy strategy.

An underlying assumption of industrial policy assumes that national comparative advantage is neither just inherited nor absent, but it can be created by state intervention, through the re-allocation of specific resources within and between different industrial sectors. The distinctiveness and significance of a particular industrial policy strategy can

be assessed as to whether a government's industrial policy will be ad hoc, incoherent or consistent and focused long-term in orientation, with specific formulated targets within a specified period. However, the various strategies employed not only relate to the targeted industry or industrial sector, but in addition, to a stage of development this specific sector finds itself. In this regard, we can observe a familiar distinction between 'sunrise', 'infant' and 'sunset' industries. A crucial argument in support of the formulation and implementation of an industrial policy strategy is provided by Dosi et al., in arguing that since industrial sectors differ in their long-run growth potential, an allocation of resources, which may be optimal current market signals, would not necessarily be optimal for long-run growth potential (Dosi et al., 1989, p.16).

Following the logic of this argument, it would be rational to assume that a non-market actor, like the state or more specifically a regime, provides incentives for further development, transcending current market signals. In this regard Itoh refers to several conditions which are of importance for a successful industrial policy: the first condition highlights the importance of accurate government information regarding economic activities; the second condition refers to the structural ability of the administration for implementing effective and efficient policy measures; whereas the third condition requires the government to anticipate the complex and causal linkages and to predict future economic and industrial related trends (Itoh 1991, pp.11-12).

Developing an ability to anticipate and react to future trends, on the part of the government, requires a close but not too cosy relationship between government, industry and society. On the one hand, it should allow the government to gather

sufficient information to anticipate future trends and developments. On the other hand, it should not bind it too close to specific industrial interests. Evans' concept of 'embedded autonomy' captures such a relationship in that, as embeddedness provides the sources and channels to information, a government needs to formulate and implement its policy autonomy complementing embeddedness by protecting the state from being captured by specific interests.⁴ However, Weiss prefers to speak of 'governed interdependence', a system of central coordination based on cooperation - in which public and private participants maintain their autonomy – highlighting a states' ability to use its autonomy to achieve consensus and cooperation from the private sector (Weiss 1998, pp.38-39). She criticises the notion of the powerless state, arguing that such a view is founded on misconceptions including the exaggeration of earlier state powers, the overstating of uniformity of state responses to 'global' developments, and the political construction of helplessness (that there is no room for state actors to respond differently to the process of 'globalisation') (Weiss 1998, pp.189-93). Hence, as mentioned before, globalisation and the related developments of restrictions on state activities should not be interpreted as the end of the national state.

Though the role of government is seen as important in the formulation and implementation of a particular industrial policy, yet, the position advocated in this dissertation is that this is rather misleading as it neglects the crucial impact of a regime, which exists in various forms in every state. It is further argued that there are frequently references made to an existing regime without identifying it. A good example is what Weiss describes as 'governed interdependence'. An additional argument in favour of the

⁴ For a wider and deeper evaluation, see Evans (1995), Chapter 1.

continuous relevance of the state can be identified in the requirement that both economic activities in general as well as the global economy require the enforcement of regulation, in addition to a stable and predictable environment. Both of which the nation state aims to provide. After all, the state continues to provide the physical and political infrastructure without which business actors – domestic and transnational – cannot operate. In addition, the level of education of the workforce is of significance to most transnational companies, even though there are differences within various industrial sectors.

Nonetheless, this should not deny that globalisation has an impact on the state's ability to steer and manipulate economic development, as witnessed in the incremental changes and restructuring of state activities. Together, these impacts on the state and the ability of the state to act independently also have an influence on an existing regime's ability to steer and manipulate economic development. This indicates that the processes of global integration, characterised as a spatio-temporal event, intensify the impact of challenges, originating in the international sphere, on domestic developments. However, the particular impact of globalisation will be experienced in various forms within different localities and thus with different implications for a particular regime. It is crucial to remember that a regime does not simply exist, rather its existence is legitimised by its ability to deliver specific goods or values (i. e. to become a powerful nation). Hence, the potential impact various processes of globalisation should not be interpreted in merely in negative terms, as it may impact on a regime's ability to deliver on its promises. However, which of the two scenarios will be relevant to a particular case is determined

by the specific situation a state and a regime are confronted with as well as their capacity to respond.

It should be emphasised that a regime without a mechanism to implement its policy successfully will not perform well and therefore undermines its political legitimacy. To act decisively, to articulate and implement a coherent policy strategy and to respond efficiently to shocks, arising from either the domestic or the international environment, decision-making capacity is imperative. This requires effective top-down political control. However, decision-making capacity should be interpreted as potential – issue related - and not as an general capacity, as the ability of a regime to form effective socioeconomic interventions will vary over time, based on its internal strength and the power composition it represents. In addition, its decision making capacity will not only vary with the circumstance a regime is confronted with, it too will vary with the environment - domestic or international - a regime has to deal with. The decision-making capacity a regime possesses provides an indication of its strength, hence, losing its decision-making power would seriously undermine its position.

These assessments provide a further indication that a space for domestic agency in creating national comparative advantages still exists. However, even in a less radical interpretation, the issue remains as to what extent globalisation restricts the state's ability to act freely, that is, to select a specific form of economic developmental strategy. Thus it is essential to recognise, as highlighted by Scholte, that the challenge of economic globalisation manifests itself through a transformation of geography, identifiable by the growth of a trans-border economy, however globalisation did not

eliminate the territorial dimension, instead it reconfigures geography. Hence, instead of signalling the end of the significance of the state, globalisation rather repositioned the relevance of the state (Scholte, 2005). Though, it should not be neglected that the status of the state as an actor in the international political system is also undermined by the proliferation of non-state actors and of regional and international organisations. Breslin and Hook suggest that the state is confronted with losing power ‘upwards’ to ‘super-regions’ and ‘downwards’ to the global economy, even though they stress that the state still remains a relevant focus of political and economic activities (Breslin and Hook, 2002, p.19).

Together, these parallel and sometimes interrelated processes of globalisation and regionalisation contribute to the changing nature of international politics, characterised by the emergence of an increasing polycentric international political system, in which the state is one, yet an important actor, among others. Thus, we have to acknowledge the re-definition of political space through what is described as globalisation, even though it is rather difficult to grasp the distinctive nature of globalisation itself. In addition, we may also be more sensitive when speaking of ‘globalisation’ as a single process, experienced at the same intensity everywhere around the globe at the same time. Instead, it would be more accurate to speak, as emphasised by Hay and Marsh, of multiple and uneven processes of globalisation, both in time and space, including simultaneous social, cultural, political and economic developments (Hay and Mash, 2000, p.3).

Thus we can argue that the processes of globalisation - thereby accepting that globalisation does not have a single trajectory - have re-positioned, but not diminished, the role of the state as a critical institutional and structural variable, by contextualising political, economic and social behaviour.

At an abstract level, the process of globalisation represents another structural environment for both the state and a regime. The above discussion implies that a specific regime will retain an influence on globally active companies, thus highlighting the on-going importance of geography and with it the state as an important actor to shape and regulate economic, political and social interactions. Yet, it is important to recognise that globalisation does not necessarily present a challenge to a state or a regime, indeed, globalisation may also offer the opportunity of additional economic gains, and thus can enhance the stability of a regime. However, this will depend on how a regime and its actors perceive the challenge of globalisation in the first place and the response they formulate. Again, the influence globalisation has on a state and by extension on a regime will vary from case to case based on the specific relevance of a state and regime and the structural configuration they embody in a particular domestic and historical context. Both case studies will explore the different impact of globalisation on each regime, and the response to the particular structural environment.



In developing a deeper understating of the underlining dynamic of the various state projects, state responses towards globalisation, and indeed on regime formation and

regime development, the interaction between structure and agency is of utmost importance. Yet, if anything, identifying the relationship between agency and structure and the impact on state development is as contested as the various approaches towards the impact globalisation has on the state. Even so, incorporating the structure-agency dynamic into the evaluation of complex political change, in state and regime formation and development will provide insight into the occurrence and dynamic of change, as in both cases, the interplay between stasis and change inform these processes.

2.4 The structure-agency debate and the implications for state and regime development

As both the state and a regime provide different but related structural environments for strategic actors, recognizing the complexity of the structure-agency relationship will contribute to our understanding of the underlining dynamic which informs the observable variety of state projects and regime formation and development. In addition, developing a comprehensive understanding of the structure-agency relationship, will enable us to overcome a single focused interpretation of political development based either on the sole power of agency or on the omnipresence of structural impediments, consequently improving our insight into the occurrence and dynamic of regime formation and development. Consequently, this section will focus on

- if either structure or agency shall be given prominence in their interaction
- whether dialectical approaches, based on the dynamic of their interaction, provide a more insightful understanding of the structure-agency relationship

Though one can argue that there is a consensus within the academic community that structure and agency influence each other to various degrees, still, this should not imply that we can identify a concord over the exact influence they have on each other when explaining complex political development. On one side of the argument, structuralists like Althusser (1968) and Parsons (1977) emphasise that structure is inherently an overriding influence over agency, whereas internationalists like Downs (1957) and Little (1991) take the opposite position arguing that agency offers the appropriate focus for enquiry. However, in more recent social science debates the discussion has centred on the extent to which a dialectical relationship provides a more useful position for describing the structure-agency relationship. Among these positions, we can identify Stone's strategic context analysis (1991), Giddens structuration theory (Giddens, 1984), the strategic relational approach advocated by Jessop (1996) or Archer's morphogenetic approach (1995).

However, we should begin our investigation with an evaluation of the various meanings attached to both structure and agency. To begin with, Boudon perceives structure as a 'set of basic characteristics' (1986, p.93); and for Hay '[s]tructure basically means context and refers to the setting within which social, political and economic events occur and acquire meaning' (2002, p.94). Principally, as Blau, cited in Cerny, argues, we can identify three main approaches to structure: structure as patterns of interaction; structure as positing the prior existence of a structured substratum; and structures as a particular form or pathway for development (Cerny, 1990, p.15). Giddens' structuration approach advances the notion of the 'duality of structure', by highlighting the inherent enabling and constraining aspects of structure, identified as rules and resources

(Giddens, 1984, p. 169). Considering the character of structure in such a way, it becomes manifest that, as Boudon argues, the aim of 'structuralism' is to uncover the essence of what lies hidden behind the appearances (1986, p.91). Hay argues, the intention of structuralism is 'the explanation of political effects, outcomes, and events exclusively in terms of structural or contextual factors' (2002, p.102). The importance of structure can also be identified in 'the continuation of the past', as the past lives on in the present as emphasised by Fay (1996, p.227).

As for the impact structure has on agency, Archer points out that each new generation of agents is confronted with circumstances which affect them, but which are not of their making (1995, p.196). Even as a particular structural environment generates a specific rational environment, Archer reminds us, that it is on the part of the actor to respond to a particular structural setting, as 'ideas purely sleep on in books until awoken by actors' (Archer, 1995, p.229). Sztompka also observes, that social structure does not constrain or enable people in any straightforward, immediate, mechanistic fashion, but only to the extent that people recognise them, and define them as blocks of resources (Sztompka, 1993, pp. 222-3). By indicating the importance of the responsiveness of actors in recognising a specific structural environment, this leads us to the second component of the structure-agency relationship.

For Hay 'agency refers to action', which describes 'the ability or capacity of an actor to act consciously and, in doing so, to attempt to realise his or her intention' (2002, p.94). Giddens describes the character of agency as a continuous flow of conduct, and an important feature of action is that the agent 'could have acted otherwise' (1979, p.55,

56). Cerny argues similarly, placing the emphasis in analysing agency behaviour in the various options open to them, and stresses that these kinds of cost-benefit, end-means decisions possibly are the most meaningful building blocks of the real world (1990, p.56). Sztompka, argues analogously, stressing that ‘the relationship between agents and actions is quite intuitive’ as ‘[a]gents mobilise their potential capacities, abilities, needs, attitudes, dispositions in taking actions of various sorts’ (Sztompka, 1993, p.215).

It is therefore essential to recognise the interaction of structure and agency when evaluating the dynamics of change, as neither just exists:

as actors do not exist outside a system which determines their scope of freedom but at the same time the system does not exist without the actors, who produce it, support it and are solely empowered to change it (Sztompka, 1993, p.196)

However, viewing structure and agency as two opposite positions would ignore a crucial link in the nature of that relationship. In response to this orthodox position in analysing the relationship between structure and agency, Jessop argues that there is a perception of a false duality that links structure and agency together. Instead, he argues, one should consider this relationship as dialectical, as opposed to a mechanical relationship, and within this context; one can study social structure in ‘strategic-relational’ terms (Jessop, 1996, p.124).

Archer also advises us to be cautious when judging the influence of structure over

agency, stressing that it is necessary to bring back, what she describes as ‘the power of people’, consequently recognising people not so much as static upholders of different ideas, but as active makers and re-makers of their culture and structured environment in pursuit of their interests (Archer 1995, p.246). Cerny reaffirms that actions have structural consequences and those consequences are clearly essential to the concept of structuration (Cerny, 1990, p.56). However, critically, agential recognition of the impact of the structural environment will not be uniform, and consequently, responses will differ (as not all members of a society will behave identically) nor necessarily in a repetitive fashion (individual members can respond differently in similar situations). What is more, agential responses towards a structural framework will over time alter the structural framework. Fay highlights that:

Rules give direction as to how one is to proceed. But no rule can anticipate all the conditions under which it is to be applied. Rule-followers thus do not simply "conform" to rules, but instead elaborate and transform them in the process of following them’(Fay, 1996, p.56).

Indeed, adapting a dialectical approach in analysing the structure-agency relationship will help to more accurately describe the process of interaction, which takes place between them. Following this line of argument, Jessop describes the influence of structural constraints, on reflexive and strategically calculating actors as selective, temporal, and spatial; as agency- and strategy-specific (1996, p.124, 125). Analogously Hay argues, depicts the key relationship within the strategic-relational approach, as

not that between structure and agency, but rather the more immediate interaction of strategic actors and the strategic context in which they find themselves (Hay, 2002, p.128)

Consequently highlighting that the strategic relational approach therefore offers

a dynamic understanding of the relationship of structure and agency which resolutely refuses to privilege either moment (structure or agency) in this dialectical and relational interaction (Hay, 2002, p.134)

Stones also advocates more interactive and reciprocal approaches in analysing the structure agency dynamic. One example is the 'strategic conduct analysis' which would be used to explain the motives, knowledge ability, and skills (beliefs, purpose, intentions) of actors; the other is called 'strategic context analysis' and focuses on the analysis of the strategic terrain, which circumscribes the range and possibilities actors are facing (Stones, 1991, p.676). Therefore it is not so much a question of whether either structure or agency is the dominant force behind change, as it is the interaction of both which will provide a fundamental insight into the process of change.

Therefore, even when recognising the impact of structure on future developments, it would be misleading to deny the influence and capability of agency to alter the process of change. Hence, employing a more sensitive approach in recognising the interactive dynamic of the structure-agency relationship will help us to avoid a one-sided evaluation of political, economic or social reality and with it the occurrence or non-

occurrence of change and the extent of that change. Thus we should no longer refer to people either as behaving ‘economically rational’ nor to interpret them as ‘static upholders’ of specific cultural characteristics. Having said this, it cannot be denied that either economic rationality and/or cultural influences will affect agential responses when dealing with a specific structural environment.

As discussed above, by accepting a dialectical approach in highlighting the relationship between structure and agency this will enhance our understanding of their relationship in ensuring not to privilege one of them over the other and thus overcome the fallacy of interpreting political development by singularly focusing on either the dominance of structural impediments or the power of agency to act. This in turn will enhance our understanding of political developments and of regime formation and regime development as a specific aspect of the transformation of the state itself. Yet, it is the ‘strategic-relational’ approach, which will assist us to develop a more accurate framework to examine the process and characteristics of the occurrence of change.



The following section will focus on another fundamental issue - the nature and character of change. Change is seldom neither complete nor uni-directional. Hence, change can take various forms which in itself is a vital issue for understanding and distinguishing between either a partial or comprehensive change; between regime shift and regime change.

2.5 The nature of change and crisis and their relevance for analysing ‘regime change’

In enhancing our understanding of regime development and regime change we not only have to analyse the underlining causes of these transformations, but equally develop a critical insight in the nature of change itself. Hence, this section will focus on the nature of change by evaluating the following characteristics:

- pressure for change
- patterns of change - directional and non-directional
- to distinguish between ‘change-in-a-system’ or ‘change-of-a-system’

When speaking of change we have to acknowledge that this implies that something is transforming from one form to another and that without pressure of some kind there would be no change at all. However this pressure for change can be based either on a comparison with developments within other states and societies or generated by domestic demands. In addition, we should recognise that the term ‘change’ encompasses a continuum from partial adjustments to a fundamental breakdown. Even as stability seems the norm, change is an inherent and constant part of political life and state development, as political structures are in a continual process of transformation. At times the speed of change accelerates, forming a situation characterised as a ‘crisis’, which can be distinguished from times where change is a slower and gradual process.

However, a ‘crisis’, as emphasised by Hay, is not merely a moment of impending breakdown, but rather a strategic moment of transition, a decisive moment in the

transformation of the state, where an actual political structure undergoes fundamental change (Hay, 1999, p.320). Ikenberry also describes 'crisis' as a critical turning point, providing an opportunity for re-thinking, thereby allowing policy specialists to influence and shape the resolution of debates, as elites are interested either in rebuilding existing institutions, or creating new ones, to preserve or acquire legitimacy (Ikenberry 1995, pp.59-60). Alike argues Andrain (1994), by pointing towards the transformation process from one system to another he identifies three interrelated forms of crisis - structural, cultural, and behavioural - which can provide impetus for political transformation. Among these three categories of crisis, Andrain stresses that the strongest impact on systemic changes arises from a structural crisis.⁵

In Habermas's theory of state crisis we can identify that a distinction is drawn between 'system crises' and 'identity crises'. Whereas the breakdown of system integration is referred to as 'system crisis', however an 'identity crisis' is defined as a breakdown of social integration arising as a response when the existence of a 'system crisis' is recognised by the members of a society. Consequently, 'identity crisis' refers to a situation in which the civil-society develops the perception that a system crisis exists. Habermas offers a further subdivision of both concepts, by dividing 'system crises' into 'economic crisis' (arising out of the economic system) and 'rationality crisis' related to

⁵ **Structural crisis**, occurs either when a gap emerge between the high demands towards political actors and a political system and its low response to these demands; or when political actors and a political system remain too inflexible in their policy formulation in responding to societal Changes; **Cultural crisis**, is based on the conflict over values and norms. It arises when formal uphold values and norms are no longer in accordance with the wider society, thus political legitimacy declines, enhancing the possibility of a systematic transformation; **Behavioural crisis** relates to a leaders competence and citizens support. An important source of it can be found in policy performance, such as in the case of an ineffective policy performance. See Andrain (1994) Comparative Political Systems: Policy performance and social Change, pp. 91-100

the political system, indicating that the state is no longer able to manage the conflicting demands placed on it. Therefore, system crises characterise the exhaustion of strategies and techniques in managing contradiction and steering problems within a particular state. He further divides 'identity crises' into 'legitimation crisis' and 'motivation crisis'. A 'legitimation crisis' occurs within the political system and can lead to the withdrawal of legitimacy a society previously granted a state, whereas a 'motivation crisis' relates to the socio-cultural system and the fundamental breakdown of social and cultural practices a state is based on (see Hay, 1996, pp.88-90).

Hay provides further arguments for distinguishing a crisis from a gradual and continuous political process of adjustment, by differentiating between 'failure', as a non-reproductive property of a system and the dysfunctional symptoms they generate, and 'crisis', as a situation in which failure is identified and widely perceived (Hay, 1999, p.320). A similar approach can be identified in what was earlier mentioned and is described by Gao as an 'intrinsic dilemma'. It indicates the development of built-in contradictions in the prevalent institutional logic, which can develop over time as the existing institutions face a transformation in their environment, consequently reducing an institution's capabilities to respond and to deal with new challenges generated by this changing environment (Gao, 2001, p.10).

The weakening of decision-making capacities of a regime may not only signify the beginning of a 'crisis' but also indicate the existence of an intrinsic dilemma, as the established regime can no longer respond within the existing mode of policy production. Hence, 'crises' as a decisive moment in time represents a critical juncture for

legitimizing or de-legitimizing political, economic and social institutions. The linkage between legitimacy, crisis and change also reflects Lipset's assertion, that a crisis of legitimacy is a crisis of change, adding that

a crisis of legitimacy occurs during a transition to a new social structure, if
(1) the status of major conservative institutions is threatened during the period of structural change, (2) all the major groups in the society do not have access to the political system in the transitional period, or at least as soon as they develop political demands (Lipset, 1960, p.78).

Yet, there are various facets of change that we have to consider; one relates to the form that social processes can take and the other to the causality of social processes. Regarding the first, Sztopka outlines two main courses social process can take: directional or non-directional. The directional process is characterised as irreversible, gradual, linear, and cumulative; whereas, the non-directional process is portrayed as random, chaotic, as oscillatory, following apparent patterns of replication or similarities. Concerning the causality of social processes, he distinguishes between endogenous processes - reacting to potentials and tendencies within the changing reality - and exogenous processes - responding to pressure, stimuli and challenges coming from outside the society and a specific social development (Sztopka, 1993, pp.13-16, 21).

When evaluating the influence of change based on different developments within the society, we should recognize the ability of social systems, including a regime, to absorb pressures of change. Lipset points towards the ability of social systems to resist change,

by asserting that societies can endure chronic and serious contradiction without neither breaking down nor making major adjustments (1975, 180). Even when change occurs, it seldom happens suddenly, the exception is revolutionary change, though even in such a case, unrest builds for some time. After all, regime change, like that from the British welfare state towards Thatcherism, does not occur over night. In considering this ability of regimes to absorb pressure, Chirot points towards the following dynamic:

Economic or political failure forces change, and as institutions try to remain intact in the face of such pressure, they may themselves start to act differently and inadvertently bring about significant change even as they maintain old external forms (Chirot, 1994, p.124).

Since social change is neither absolute nor a straightforward process, Sztopka highlights the various forms change can take: ‘change in composition, change in structure, change of function, change of boundaries, and change in the relations of the subsystems and change in the environment’ (1993, p.5). Offe’s distinction between structural and conjunctural modes of political rationalities provides additional insight into the range of responses towards systemic failure. A *conjunctural mode of political rationality* is characterised as a response in which a solution is sought to be found within the pre-existing and largely unmodified structures of the existing institutional compromise, whereas a *structural mode of political rationality* inherits the very transformation – a restructuring, of the existing institutional compromise (Offe 1985, cited in Hay, 1999, pp.328-9).

In taking into account these illustrations of the varied nature of change, we should therefore distinguish between a partial alteration of an existing regime, and a more comprehensive aspect of change, the actual breakdown of an existing regime. In distinguishing between partial change (of change within a system), from comprehensive change (the change of a system), the terms applied in this thesis to describe these differences in the occurrence and nature of change are regime shift and regime change respectively.

Accordingly, change can be measured along a continuum from weakening to a complete failure of a regime. Figure 2 illustrates a stable regime, with well-established internal regime relations between the different actors (A). Figure 3 reveals changes within a regime depicting changes within one of the actors or in the internal relationships between one or more actors. The reduced internal coherence of one actor, based on various developments such as the magnification of diverse interests that can no longer be amalgamated to a single position, may provide a good illustration. Alike, if one of the actors on which a regime rests loses some of its significance, one may think of a political actor losing its dominant political position as providing us with another good example, since such a development does carry crucial implications for the stability of the whole regime as well.

However, in the case of more than one actor losing either its internal coherence or its relevance is undermined, the related implications for a regime can lead to the unravelling of it, consequently leading to a change of the regime. This process is illustrated in Figure 4 (Ploberger, 2012, p.15). Overall, how a regime will respond to

political, economic or social challenges will provide us with important insight into its strength or weakness, as the nature of that response will indicate to what extent an existing regime is still capable of dealing successfully with such challenges or to the extent these new challenges have already undermined its very foundations. That is, as a regime embodies specific interests we will see attempts made to conserve the established 'way of doing business' and to maintain the established pattern of interactions. This resistance to change can in turn give rise to what was described earlier as an intrinsic dilemma.

The process of de-legitimising an established regime provides a rather crucial dimension for the dynamic of change, and it is essential to recognise that both underperformance and success can undermine an established regime. With regard to underperformance, being unable to fulfil certain tasks or failure to implement its strategic objectives, which are closely related to a particular regime, could undermine the political legitimacy it rests on. Equally, the accomplishment of particular aims or strategic targets, like a reduction of working hours, modernisation of the economy, or facilitating and implementing a comprehensive development strategy, may lead to a situation where a regime risks not only undermining its internal coherence, but of becoming obsolete as well. Hence, failure of redefining new strategic aims will carry fundamental implications for regime stability and regime change. We should remember, that although a regime represents a structural entity with consequences for strategic actors, a particular structural environment is characterised by stasis and change as structures are not immune to the on-going changes in the political, economic and social spheres. Also, we should interpret the established pattern of interaction within a regime

not as permanent, but as potential and dependent on a particular setting at a specific moment in time and within the environment concerned.

Figure 2 Stable Regime

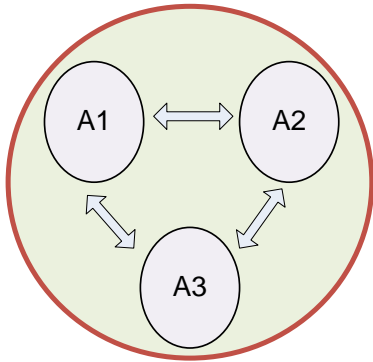


Figure 3 Change within the Regime

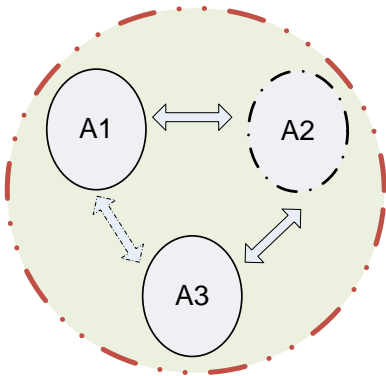
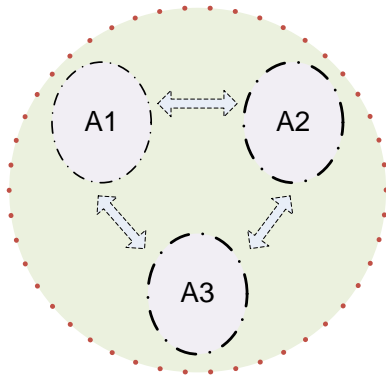


Figure 4 The unravelling of the regime



Another cause of undermining a regime’s legitimacy can be identified with regard to a dynamic process, when over time the regime’s aims and goals no longer correspond to

the expectations held within the society. For example, a regime may continue to only focus on generating economic growth, whereas within the society raising living standards, including non-economic goods (i.e. reducing pollution, reducing working hours) may become more prominent issues. Alterations in the expectations within the society are often based on social change and economic changes, which in turn may signal the success of a regime in implementing its earlier objectives. Hence, not addressing such alterations within the society can not only lead to a de-legitimation of an existing regime but equally can undermine a regime's internal coherence by weakening the consensus on which a regime rests.

Still, a regime may be able to re-formulate its original aims or to integrate new objectives in its strategy, thereby preserving or regaining support within the wider society. However, it should not be taken for granted and that it will be a measurement of a regime's strength and of its internal cohesion to be able to respond to such challenges successfully. After all, such a consensus must not only transcend the particular interests of the actors involved, but also inform a character of solidarity between the various participants of a regime, in order to be accepted by all participating actors of a specific regime. The process of redefining the aims of an existing regime, to establish a new compromise among the regime members over the regime's strategic aims, will inevitably have an impact on the gains and losses of the various regime members as well as on groups outside the regime. Regarding this dynamic, Bromley emphasises, that one can distinguish the behaviour of the actors concerned in activities as either motivated by allocative efficiency (pie enlarging) or redistributive in nature (re-dividing the pie) (Bromley, 1989, p.128). Evans argues, that state strategies can change class

structure by creating new social groups which will identify themselves with and profit from these developments, even though their long-term interests may conflict with state interests (Evans, 1995, p.229).

It is thus vital to remember, as indicated before, that change is an inherent part of political life, a mere pressure for change does not necessarily foretell the end of a regime. After all, a regime may respond to a crisis situation by re-adjusting its goals, with at least partial reforms, thereby moderating and deflecting some of the pressure for change. What's more, as evaluated in an earlier section on the state, the existing structural environment, such as the state and a regime, exercises a strong influence on further developments as they form the structural setting within which actors navigate and formulate their strategies. This also indicates that further developments, especially in the absence of a revolutionary process, are to some extent path-dependent, since the existing institutional context not only influences the actual bargaining power of political, economic and social actors, but also the nature of compromises reached between them. As stressed by North, not only does the bargaining power of various groups differ within institutional settings, but in addition, we are able to identify within each society a particular web of interconnected formal rules and informal constraints that together make up the institutional matrix and lead to economies of different nature (North, 1999, p.115).

An existing regime is faced by what can be described as a dialectical process in which the established order is contested by subsequent events and through these events reformed, which may lead to a new established arrangement. The phase and pattern of

each process depends on the extent and seriousness of the challenges faced, the stability of the existing settlement, and to what extent the interests of important actors are integrated. Even so, adjustments within the existing order sometimes provide a sufficient response to prevent a regime change from occurring, although it may generate a dynamic which leads to a regime shift, a change within the existing regime, whereas at other times there will be a requirement for a more fundamental re-evaluation of the existing institutional order as the need for a new settlement arises. In identifying an existing equilibrium, North argues that

an institutional equilibrium would be a situation where given the bargaining strength of the players and the set of contractual bargains that make up the total economic exchange, none of the players would find it advantageous to devote resources into restructuring the agreements (North, 1999, p. 86).

However, as long as the participants involved in the regime are satisfied with the status quo, there will be fewer incentives to change the regime structure, yet this should not be misunderstood as the absence of disputes between the various members of an existing regime. When addressing change and resistance to it Hall argues that the impact of a new set of ideas over an existing policy will depend at least on three circumstances: economic viability, administrative viability, and political viability. 'Economic viability' refers to the capacity of resolving actual economic problems, whereas 'administrative viability' refers to the ability a new set of economic ideas will fit into the established administrative bias of the decision makers involved and the existing capacities of the

state to implement them; ‘Political viability’, refers to the suitability of the new ideas to facilitate the existing goals and interests of the dominant political actors (Hall, 1989, pp.370-371).

Hence, the impact of a specific state and an existing regime, as both representing critical structural entities, on change is identifiable as this will reflect both the selection of a particular policy strategy in the pursuit of a specific type of economic strategy and when responding to a specific crisis situation. Since, a regime is intertwined with the existing institutional arrangements of a specific state, a regime equally faces restrictions in its ability to respond to specific political, economic and social challenges.



As this section has demonstrated, ‘change’ can take diverse forms, consequently we need to be aware of these different characteristics and the implications for political analysis as for example ‘change-in-a-system’ carries different implications for a particular political system as ‘change-of-a-system’.

Chapter 3 –The research approach and research strategy

3.1 General outline

The focus of this dissertation is on analysing complex political change, specifically, to understand the complex processes underlying non-revolutionary changes by employing the concept of regime change. Although non-political aspects are included in the analysis, the political dynamic remains the primary focus. Hence, this research will not only increase the systematic knowledge of the theoretical issues, but also the specific case studies. The theoretical framework will be used to examine two distinctive case studies of Japan and China. The case studies will both test the usefulness of the theoretical framework to illuminate complex political change in the context of particular national development, and also demonstrate that the theoretical framework of regime change can be applied to a wide range of case studies, which are different in their nature.

3.2 Approaches to political science: the ontological question

When undertaking political analysis it is crucial to be aware of the existence of various approaches regarding the legitimate terrain of such an analysis. This relates to the fundamental issue, as to what extent non-political factors - economic, social, cultural and ideational features - are included in analysing political dynamics. Hence, to what extent non-political factors influence political developments, and consequently, to

specify which concept of politics – a narrow approach, restricted to the governmental institutions; or a wider approach of politics, which may include the entire sphere of the social – will a particular research strategy.

Leftwich, for example, argues that a more encompassing conception of politics, transcending an exclusive focus on governmental institutions, is necessary, as a narrow focus on governmental institutions would provide an insufficient basis for understanding the very substance of politics (1984, p.140). Almond and Genco arguing analogously, highlighting that political decisions are made and implemented not in a vacuum but are constrained by what he identifies as the ‘operational milieu’ (1990, p.35). Similarly, Goodwin and Klingemann, focusing on constraints within which political actors operate, agree that these constraints form the essence of politics and thus the analysis of these constraints lie at the centre of investigation when studying politics (1998, p.8). While recognising that ‘political behaviour is governed by norms, consciences, belief and values’, we have to acknowledge, as Hay argues, the complex interactions of material and ideational factors, as actors’ behaviour reflects their understanding of the context in which they find themselves (Hay, 2002, p.208).

Following these approaches, we can not only recognise the influence of non-political variables on political developments, but by acknowledging such a dynamic relationship, we are also able to identify the process character of the ‘political’. By considering a dynamic interaction between different subsystems of political developments, it is important to recognise, as highlighted by Skocpol, that politics is not grounded in a single dimension, instead it is based on an interrelated relationship between various sub-

systems (1985, p.27). Consequently, as argued by Held and Leftwich, if politics as a discipline is to be taken seriously it must be interdisciplinary (1984, p.143). Hay also argues for an interdisciplinary approach of political analysis as the ‘conventional approach to social science based on rigid disciplinary and sub-disciplinary fault lines and demarcations, do not prepare us well for a world of interdependence’ (Hay, 2002, p.5). North argues in a similar way when emphasising that a perceived reality held in the society is instrumental in creating a specific economic and political reality thereby informing the creation of a specific institutional matrix, which then will inform this specific view of political and economic reality (1999, pp.10-1).

However, accepting an interdisciplinary approach does not constitute such a novel development, as highlighted by Graham, reminding us that one goal of the classical political philosopher was ‘to understand, to explain and analyse the interdependence between the social, individual, economic, and governmental aspects of the political community’ (1972, p.3). Even as we can identify an interdisciplinary approach towards political analysis in European social science history, there has been an extensive drive towards specification and division into disciplines and sub-disciplines within social science, leading to a development that social science analyses ‘the economy’, ‘the social system’ and the ‘political system’ as if they were independent spheres from each other.

Participating in this discussion, between a narrow versus a wider approach to political analysis, Thomson et al. argue that

Political scientists must give up the notion that the distinction between politics and other spheres (whether economic, social, environmental, technological or whatever) is ‘out there’ in the world ready-made to be picked up and used (1999, p.8).

A central feature of analysing the social and political world includes asking the question ‘whether there is a “real” world “out there” that is independent of our knowledge and if so, can we identify “real” from “objective” relations between social phenomena?’ (Marsh and Furlong, 2002, pp.18-9). The sometimes passionate discussion between advocates of an empiricist approach or an interpretist approach respectively reflects these diverse positions within political science.

Whereas the interpretist approach emphasises explanation and understanding, maintaining that the world is socially constructed, the empiricist tradition advocates the notion that there is a ‘real world out there’, that it is possible to discover law-like regularities, and with it the ability to predict developments, emphasising that social science too has to be modelled on the natural science.

In contrast to the empiricist tradition which can work with wide-ranging data, the interpretist approach focuses more on the interpretation of specific developments within a particular society or country. This is also a central rationale of the ‘area-studies’ approach. Yet, this emphasis on interpretation, thereby concerning itself not so much with identifying law-like regularities as mainstream political science does, brings the interpretist and ‘area-studies’ approaches in sharp conflict with mainstream political science, especially with its empiricist tradition.

Critics of the empiricist tradition, as stressed by Marsh and Furlong, argue that enquiries into the social world differ to that of the natural world:

First, social structures, unlike natural structures, do not exist independently of the activities they shape. (...) Second and related, social structures, unlike natural structures, do not exist independently of agents' views of what they are doing in the activity. People are reflexive; they reflect on what they are doing and often change their actions in the light of that reflection. This leads us to the third difference. Social structure, unlike natural structures, change as a result of the actions of agents; in most senses the social world varies across time and space (Marsh and Furlong 2002, p.24).

Hay argues in an identical manner, highlighting that the subject matter of natural science is neither intentional nor reflexive, as it is the case within social science. Accordingly, the most basic assumption of natural science that the rules of the game do not change over time is not applicable for inquiries into the social world (2002, pp.85-6). Goodwin and Klingerman also emphasise that the ontological status of the subject of inquiry in social science is different from that of the natural science, therefore rendering the positivist's covering law model inappropriate for inquiries into the social world (1998, 10).

Almond and Genco's position also offer a critical view regarding the tendency of political science to treat political developments and events like natural phenomena, stating that

[i]n its eagerness to become scientific, political science has in recent decades tended to lose contact with its ontological base. It has tended to treat political events and phenomena as natural events lending themselves to the same explanatory logic as is found in physics and the other hard sciences (Almond and Genco, 1990, p.32).

adding that social scientists who

view human behaviour as simply reactive and consequently susceptible to the same explanatory logic as "clocklike" natural phenomena are trying to fashion a science based on empirically falsified presuppositions (Almond and Genco, 1990, p.36).

Yet, if we cannot apply the natural science character into the inquiries of the social world, and hence into political research, how can we analyse political development in a scientific way?

Hay too, argues for a more 'minimalist' definition of science within social science, although with 'the ability to generate neutral, dispassionate and objective knowledge claims' (2002, p.87).

Stoker highlights, the demand during the 1970s and 1980s for political science to take into account a wider range in the analysis of politics, including the concern of other disciplines, such as economy and sociology, increased, adding that ‘[m]uch political activity is managed at the interface of state and society’ (Stoker 1995, p.6).

The concept of regime change may provide us with an instrument of analysing various and different cases of political change without ignoring their particularities. Applying the concept of regime change will not only enable us to identify the causes and consequences of the interaction between the various subsystems (economic, political and social) on political developments, but in addition, it too will enhance our understanding of the process character of politics. Therefore, a wider understanding of ‘the political’, transcending a narrow government institutional focus, underlines the research focus of regime change. This dissertation further argues in favour of accepting a holistic approach towards political analysis as the compartmentalisation of political science not only leads to a fragmented and distorted picture of political dynamics, but in addition it will also lead to misinformed responses of specific dynamics. An imperfect diagnosis, inevitably, will not lead to a suitable cure.

Hence, since political decisions are made and implemented in the context of various constraints, not only a wider approach of politics is to be favoured over a rather narrow approach, with a restricted focus on governmental institutions, but equally, only an interdisciplinary approach of political analysis will address the underlining dynamics of political change. The argument presented is that the concept of regime change offers such an approach.

3.3 The Research Design and the Methodological challenge

When analysing political, economic and social developments, history shows us that various national entities have resorted to diverse strategies in dealing with political, economic, or social challenges. Hence, there is no single approach in which political systems should respond to the pressure of change.

Regime as applied in this study refers to an informal or formal organisation of political power, and describes a more enduring form of political organisation than a specific government. However, a regime is typically less permanent than the state. Indeed, it is the state, which provides the structural framework for a regime. By identifying how power is actually used, a regime also indicates who has access to political power. The concept of regime is neutral in regards to the common state versus market discussion and the ‘strong state’ versus ‘weak state’ discourse. Consequently, the dissertation argues that the concept of regime, with its neutrality towards the state versus market distinction, although recognising the various roles the state can take, is a critical instrument for analysing the occurrence and dynamic of complex political change. Furthermore, regime analysis also reflects the intertwining of domestic and international factors in the context of a particular national environment.

Hence, the state provides the contextual framework within which other agents orient themselves strategically and tactically, thereby, highlighting the systemic and determining consequence of the state. This also applies when evaluating the contextual influence the state has on the formation and the character of a regime, and it is of crucial

importance to appreciate that the state constitutes the contextual framework within which a regime will develop. Consequently, we cannot interpret the state as a neutral institution, as a particular state will influence, and to a large extent determine, both the state-society relations and the scope of the state involvement in economic activities. At the same time, the structural context the state provides should not be interpreted as static, as this structural context will undergo changes in response to ongoing developments within the various subsystems and when confronted with a changing international environment.

Therefore, when analysing the process and nature of regime change, attention should be directed to the causes and consequences of the interaction between the various subsystems (economic, political, and social) as these interactions not only form important aspects of a specific regime, but in addition, we also have to distinguish between challenges arising from either the domestic or the international sphere. Even in the latter case, when the challenges to a regime arise from the international sphere, it is critical to recognise that domestic actors, acting within a specific domestic setting, will aim to identify the nature of these challenges in the first place and then formulate a response to these challenges, thereby taking into consideration their own interests.

The initial research phase comprises three steps. The first requires the identification and examination of an existing regime and the related justification for its existence. Therefore, we have to include an evaluation of the structural environment: the nature of the state in question, as well as the domestic and international environment.

A second step requires an analysis of the internal regime structure, how the pressure and dynamic of change will influence these relationships that may increase the influence of political, economic and social groups originally not belonging to the regime. Therefore, we have to identify a regime's internal relations; its decision-making capabilities and the instruments of implementing its policy, and how a regime manages the demands and pressure generated from outside the regime. Pressure from outside the regime may affect a change to its internal *modus operandi* by weakening or strengthening different constituting parts of a regime or outside groups, thus retaining the ability to alter the existing *modus operandi* of a regime.

The third step will then focus on these pressures and dynamics of change and the impact these developments have on the ability of the regime to implement policy and to steer political, economic, and social developments. Hence, focusing on the impact these developments will have on the performance of a regime and its political legitimacy, and consequently in influencing the nature and direction regime change will take.

Taking these requirements together, the task of identifying an existing regime not only requires an understanding of the political and economic nature of the state-society relations at a specific period in history, but also to take into account the international environment a regime has to deal with. Together these characteristics will offer the essential information in developing a firm understanding of the specific character of an existing regime and of its internal mode of operation in addition to the process and dynamic of regime change.

To demonstrate the relevance of the concept of regime change for complex political analysis, the research strategy uses diverse cases to highlight the validity of a specific theoretical approach. Lijphart for example distinguishes between the following approaches when applying case studies for political science investigation: (i) interpretative case studies which utilize an existing theory to illuminate the case; (ii) hypothesis-generating case studies; (iii) case studies which are designed to interrogate or test a theory (he called them theory-infirming case studies); (iv) theory-confirming case studies; and (v) deviant case studies (Lijphart, 1971, pp.691-3). Consequently, the case studies used in this research relate to what Lijphart describes as interpretative and interrogative/test case studies.

Two case studies have been chosen which differ fundamentally in their nature. In both cases, we will not only develop a deeper insight into the dynamic and the nature of a regime, but its basis of legitimacy and its endurance and ability in managing the pressure of change. In selecting this particular approach, the neutrality of the concept of regime change will be demonstrated in regard to

- the strong/weak and top/down characterisations of a specific state
- distinction between democratic and non-democratic states

In this way, the case studies not only utilise an existing theory to illuminate the case but in doing so, will also present us with new insight into the validity of the theoretical concept applied in this dissertation; equally it contributes to the refinement of this theoretical approach by highlighting both its consistent elements as well as the particularities related to these selected cases.

However, we can identify significant differences with regard to the pressure and dynamic of regime change in the context of a non-democratic state:

- in a non-democratic state the space for a regime to manage adaptations are limited as any existing regime will be strongly associated with the existing state itself
- pressure for changes in non-democratic states are almost always identified as a direct threat to the ruling party, consequently reducing its willingness to adapt to particular challenges
- if not managed the pressure of change may increase considerably over time and can lead to a crisis situation with a more erratic, potentially violent, process of adaptation

Though there are differences between a democratic or non-democratic state, the argument presented in the dissertation is that using the concept of regime change will enable us to understand the dynamic of a great variety of different case studies.

However, with regard to selecting either the quantitative or the qualitative method, Read and Marsh argue that in the practical world of political research, this distinction becomes vague and a researcher should be flexible and adaptable, utilizing both approaches when appropriate. They also argue in favour of combining these two methods, as this would not only allow the researcher to address all aspects of a research question, but it would also increase the validity of the research (Read and Marsh, 2000).

In following this approach, the dissertation uses a combination of qualitative and quantitative research strategies for data collection, including literary research, the use of primary sources in the form of party documents and documents related to various national party congresses, as well as incorporating statistical data. It should be noted that when selecting the statistical data for the charts used in this thesis, the yearly intervals selected did not affect the trend analysis and thus the overall trend of a specific indicator.

Using statistical material of economic development and diversification, provide not only an additional opportunity of qualitative measurements, but also the possibility of measuring the performance of a regime as well. However, data alone will not be sufficient to evaluate the performance of a regime as the nature of a regime is not open to such an enquiry. One way of identifying changes in the internal regime structure of a regime is to evaluate the extent regime related institutions underwent changes in the way they operate and their perception of legitimacy changed over time. An additional strategy of measuring regime transformation focuses on the development or intensification of internal division between the various members of an existing regime, changes in the structural environment and the public policy profile.

3.4 The case studies – literature review

The framework of regime change will be applied to examine two distinctive case studies, Japan and China. The case studies will both test the usefulness of the theoretical

framework of regime change in the context of analysing particular national developments, in addition to examine its application to a wide range of case studies, which are different in their nature. Consequently such an approach shall highlight that regime change offers a viable analytical tool for generating knowledge related to the occurrence and dynamic of complex political change.

In addition, the case studies were also selected as they are important examples in their own right by challenging established understandings of development processes, of state-market relations, the dynamic of complex political change as well as reminding us of the critical importance of the particular national context and the state in facilitating the dynamic of political change.

3.4.1 Case study one: China

Without question, China's development has been exceptionally successful and saw China become the second biggest economy as well as a crucial actor in international politics. Yet, this success lead to an intensive debate about the reasons for its achievements, the role the Chinese Communist Party (CPC) played in this success as well as re-invigorating the discussion of the role of the state in facilitating development.

Lo and Zhang, for example, argue that China's performance throughout the reform process can be regarded as unique. China not only avoided a system crisis, which characterised most of Eastern Europe and the former Soviet Union during their reform process, but in addition, China continued to perform exceptionally during two financial

and economic crises which affected the rest of the world. This success also, when following orthodox economic perspectives, provides somewhat of a paradox, in that it undermines the orthodox position, that economic development is dictated by the market (2011). Also Walder argues that China's success is a fascinating anomaly. Gradual rather than abrupt in its transition, with a prevailing public industry sector, China's reform project challenged a deeply held conviction that a combination of gradual reforms and public ownership can provide a valuable reform option. Indeed, the strongly held belief in a 'big bang' approach to reform, with mass privatization at its core, is challenged by the success of China's reform process (Walder, 1995).

Still, one could argue that the economic liberalization, partial as it was, could be credited for such advancement, yet such a position would neglect that in many other cases, like the above mentioned developments in the aftermath of the end of Communism in Eastern Europe, that merely economic liberalisation of a former closed and regulated market did not lead to a similar degree of success and actually increased the challenge these countries faced during their reform processes. One could also make the assertion that China has been able to cut many corners in the development process because of its status as a follower country. Even so, despite that we witnessed some other countries capitalizing on such a situation during economic development, it cannot be taken for granted that every country is able of doing so. Hence, being a 'follower', instead of an 'leader' does not by itself lead to economic success either.

China's success also re-invigorates another discussion, between public and private goods, between plan and market and the appropriate role of the state in facilitating

economic development; the extent that state involvement in economic matters is not only interpreted as positive, but indeed recognised as a vital part in the success of a development process.

Dickson for example points out the particular political-institutional context, Leninist in its nature, of China's economic success that contradicts the established wisdom that state intervention impedes strong economic performance (2003). The specific mix of state and market interconnections, and political control, Naughton argues, is the most distinctive feature of China's development process (2010, p.437). Emphasising, that the relevance of China's development process is further highlighted by the findings of investigations into economic development over the 1970-1980 period, which found that 'market failure' was at least as important as 'government failure' (Naughton, 2010, p.454). Alike Ping, reflecting on China's development success, points out the flaws in a conventional, ideologically and contextually driven characterisation of the state-market relationship as well as the state-global market relationship within a globalised world economy, stating that China's success may offer alternative development options for other countries as well (2011). Zhao too stresses that the success of China's reform process is a serious challenge to the dominance of the liberal modernization model, in which free-markets and liberal democracy are seen as interrelated. Zhao also adds that China's reform process signifies a different model for fast track economic growth without the widespread social and political disorder that often occurred during such periods of economic and political transition (2010).

In considering the role the state played in China's reform process one may be inclined to identify similarities with other East Asian developmental states and one could argue that China's current development process is modelled on the East Asian Developmental state, characterized by economic pragmatism, and an active state role.

However, differences are identifiable, as both Japan and South Korea upheld strong barriers to foreign direct investment and imports, a situation not applicable to the reform process observed in China. Indeed, a guided opening of the former almost closed national economy represented a vital part of the reform process. Even so, Kennedy emphasises that China's success has again re-invigorated the discussion about the appropriate role of the state during a reform process and in facilitating economic development, by questioning the perception that a non-interventionist state is the most appropriate model. Clearly, its government has consistently intervened in directing the reform process by applying macro and micro economic tools. As such he argues, China follows the footsteps of other East Asian developmental states, but also diverges from them, arguing that efforts of 'rationalising' sectors by forming cartels has regularly failed or that some of the most economically successful segments of China's economy prospered without central government support (2010).

Unger and Chan also consider that applying the concept of corporatism may provide some insight into the specific character of China's development project, especially in its East Asian variant. Attributes of corporatism identified by Unger and Chan include a counter position to democratic pluralism and free market forces that it is goal-oriented and has as its focus to serve a national mission. Even so, they do recognise the

limitation in applying this concept for describing China's development process, since China's Leninist system provides the overall context within which any political and economic development will occur (1995).

This reference to China's Leninist system directs our attention to yet another striking feature of China's reform process, the co-existence of a hierarchical and authoritarian system and the introduction of free-market instruments in generating economic development and in providing political stability; as a liberal market economy is normally associated with a pluralist democracy. This in turn, Chen and Goodman assert, poses a significant challenge for modernisation theory as it suggests that economic liberalisation and authoritarian political models can co-exist, consequently offering a different sub-sect to modernisation (2010, pp.169-70).

Indeed, as pointed out by Nathan, the assumption that authoritarian systems are inherently fragile, because they are not only built on a weak legitimacy but also rely too heavily on coercion, seemingly does not apply to the Chinese case, which seems rather resilient (2003, p.6). Indeed, in stark contrast to developments in Eastern Europe, and almost more than two decades after the Soviet Union collapsed, the Chinese Communist Party still remains in power. Dickson too addresses this point, by stating that many observers expect that continued economic reform will ultimately lead to the onset of democratization, yet, he describes such expectations as misleading, as there is nothing inevitable of a democratic process taking place in response to economic and social development (2003, p.28). He further argues, that those who believe that China's economic reforms will lead to an inevitable process towards democratisation are

ignoring the impact of agency (i.e the CPC) on a reform process (Dickson, 2003, p.32). This draws our attention to the significance and consequences of the agency-structure dynamic as discussed in the theoretical section.

Hence, so far, China's development process has challenged the existing assumptions of the co-existence of a free market economy and a democratic system, consequently challenging a prevalent position that economic modernization, at some stage inevitably, will lead to a process of democratization. This discussion on the merits of China's reform process also reminds us of another argument presented in the theoretical section, that since politics involves a dynamic mix of market and government, they should no longer be identified as opposing principles, but instead as complementary. In addition, another specific characteristic of China's reform process, which too generates considerable attention, is the pragmatic, piecemeal and gradual approach to the implementation of various reform steps, which is distinguishable from a 'shock therapy' approach.

When evaluating China's development success it is vital to recognise that we can identify a distinctive sequencing and measured pace of the implementation of economic reform steps, which distinguishes it from a radical reform approach, often described as a 'big-bang' strategy; consequently questioning, if not challenging, conventional economic theories as to the most appropriate development strategies. What's more, it again raises the question of the agency and agency-structure relationship when evaluating the dynamic of a reform process. Hence, the reform process draws our attention to the dynamic interchange of agency operating in the context of a particular

strategic environment. That is, key elements of the economic reform process – the gradual abandonment of central planning, the mixed economy (integrating plan and market), the two-track pricing system, and the restructuring of state-owned enterprises – were initiated by the CPC to produce economic growth and dynamism and not the consequence of pressure from non-state interest groups. What's more, the reform strategy was not devised on a blank sheet of paper, and yet no detailed blue print existed; indeed, the reform process evolved over time and clearly in the context of agency (CPC) acting within a particular structural environment.



Indeed, China's economic success is not only a consequence of a very successful reform process, one with fundamental implications for other developing states, but it also raises a number of critical issues, such as what constitutes the most appropriate development strategy for developing countries; what role should the state have in economic development and during the process of modernisation; and the extent economic liberalisation requires parallel political liberalisation.

On a more abstract level, a critical question is to what extent China's reform process provides a model in its own right, ready to be copied by other developing countries in the process of development. To answer this question a thorough investigation of the reform process is required, and one which transcends the common dichotomy of market versus state, of strong or weak states, and of liberal versus authoritarian political models. The concept of regime change provides such an approach. In applying the

concept of regime change, we will not only develop a critical insight into the political-economic system of a country, but in addition, it will also enable us to identify the occurrence, dynamic and process of complex political change within a specific system. By transcending the familiar distinctions between ‘strong state’ and ‘weak state’ and between democratic and non-democratic states, the concept of regime change provides an appropriate approach of investigating complex case studies like China’s reform process which does not seem to fit with established approaches to the process of development. The concept of regime change also focuses on and highlights the particular importance of a national setting for regime formation and regime change and thus informs our understanding of the extent a particular national development process can be a model for other countries during their process of development; a fundamental issue as to the success of China’s reform process.

3.4.2 Second case study: Japan

The Japanese case offers another insightful subject for analysing regime development and regime change and in exploring complex political development. What’s more, the Japanese case also demonstrates how success can undermine the stability of a regime as well. The relevance for including the Japanese case in the study is also based on its seemingly extraordinary character as there are diverse and often conflicting characterizations of the nature of the Japanese regime and the Japanese state. In addition the extraordinary success of the Japanese regime in facilitating a lengthy process of economic growth and economic modernization also add to the relevance of the case. As

such, the Japanese case may also offer valuable insights for developing countries when confronted with the challenge of development and modernization.

For example, Johnson, emphasizes that a strong Japanese state is the sine qua non of Japan's economic success, describing 'Japanese capitalism' as a specific economic model and Japan as a 'capitalist developmental state'. Adding that its strength lays in the formulation and setting of long-term development goals and by being successful in this regard, Japan has pioneered the capitalist development state (c1995, p.66). Wilks and Wright also describe the specific features of the developmental state as: plan-rational; an explicit focus on industrial policy to sustain 'high-speed' economic growth; with a general consensus on growth as part of an over-arching set of goals for society; and the existence of a powerful bureaucracy (1991, p.37). Gao identifies further characteristics of the Japanese developmental state, among them: viewing the economy strategically, restraining excessive competition and rejecting the profit motive in management. These characteristics indicate that the Japanese developmental state represents the emergence of an entirely different economic model to Anglo-Saxon capitalism, as there is no comparable theory of Japanese capitalism, though we would require one as understanding Japanese capitalism carries significant implications for the international political economy (1997). Nester too points out that the Japanese state has rejected the application of the free market ideology, instead, markets are carefully managed to avoid excessive competition. Like Gao, he also argues that the problem in analysing Japan's political economy is also linked to the lack of concepts able to accurately describe it (Nester, 1991).

Yet another group of analysts also argue that we reconsider the supposed strong state approach, of which the Japanese state seems to provide a striking example, by favouring an interpretation which points towards a lesser role of the state during Japan's economic success, instead they stress that a plurality of interests underlines the nature of the Japanese state.

Osamu alerts us to the existence of alternative interpretations by pointing out that despite one interpretation of Japan's post-war success as resting on the thesis of a strong Japanese state, assuming a carefully calculated and consistent policy on the part of the state, another approach seeks to explain Japan's economic success as an indication of the state's structural weakness. This stresses that its economic growth is neither controlled by the market nor the political system (1997). Among them, Dover who describes Japanese capitalism as 'brokered capitalism', observes that Japan resembles a strong capitalist state, 'brokered by conservative interests in a manner that restrains the market while controlling "excessive" competition and promoting nationalistic goals' (1995, p.26). Yamamura describes Japanese capitalism as 'bridled capitalism', consisting of policies and institutions guided by powerful elite groups, where a shared ideology of 'catching up with the West' performs the role of a bridle (Yamamura 1995, cited in Pyle, 1996, p.252). Equally Schwarz points to another pluralist model, described by Muramatsu and Kraus (1987) as 'patterned pluralism', characterized by a pluralism based on a wide variety of competing actors and interest groups penetrating the government, but patterned by a political alliance based on the one-party dominance, within a framework resting on ideological cleavage and the bureaucratic apparatus (cited in Schwarz, 1998, p.41). Samuels also points towards the existence of what he

describes as ‘reciprocal consent’, which refers to an interactive process of mutual accommodation of state and market, assuming that there is no permanent balance of power between state and society (1987, pp.8-9), adding that most contemporary descriptions of the Japanese political economy exaggerate state power, by stressing the strength of the state rather than highlighting the existing constraints (1987, p.21). Wolferen goes so far as to argue that the Japanese state resembles a good example of a ‘weak state’ thesis, suggesting that the state is elusive as it does not have a strong leadership, nor a political centre, that the Japan case would require making a distinction between the state and the government (1989, see chapter 2).

These diverging approaches towards the Japanese state and the nature of market interference indicates that the academic community hold a conflicting range of assumptions in characterizing the Japanese model when applying the conventional state-market distinction and how to facilitate economic development, thereby highlighting the short coming of established analytical approaches.

Hall adds, the Japanese case poses a challenge to the conventional way we think about economic management, and advocates going beyond common dichotomies as ‘politics’ and ‘market’; ‘public sector’ and private sector’; and management by ‘markets’ and management by ‘hierarchies’. Instead, the Japanese model provides us with a specific example of a more or less joint management of economic activities, involving the ‘public’ and ‘private’ spheres. This in turn highlights that, despite being useful for analytical purposes, one should recognize that private and public are artificial dichotomies with limited application to real-world situations. What’s more, the

Japanese case highlights the possibility of state intervention in the economy without neglecting market signals, as the Japanese state proved remarkably adept in managing various stages of economic development, an experience which may be of interest to other developing states (1995). Kim notes, the appeal of the Japanese model is linked to the efforts of policymakers to find an intermediate and functional model of state involvement in the economy, collaborative in its nature, which, though relying on state intervention, utilizes the market in encouraging savings, investment, and innovation. This consequently challenges neoclassical economic theory, which identifies such state interventions as dysfunctional for development and in achieving economic growth (1995). In a similar way, McVeigh suggests, that the Japanese case provides a genius example of the ability to balance state intervention and market forces (1998, p.119).

A case in point which attracts a lot of attention is the use of economic planning instruments by the Japanese state and the existing regime. As noted by Allen, though indicative economic planning characterizes Japanese state intervention, yet it is not the extent but the purpose of interventions, which defines the performance of the Japanese system (1981, pp.39-40). McMillan emphasizes that Japan's economic and technological success represented a profound challenge to the global economy, as it led to a shift in the centre of gravity regarding the economic dynamic, technological development and the development of production know-how. What's more, Japanese policy-making constitutes a remarkable degree of non-ideological and pragmatic attitudes as it encompasses a mix of supposedly socialist and liberal market approaches without being recognized either as a capitalist or as socialist system (1996).

Evidently, the ongoing discussion on the nature of the Japanese state also challenges established categories of classifying state-market involvement which is generally identified by the following two categories: 'top-down' and 'bottom-up' models. Whereas 'top-down' models emphasize the role of the state, 'bottom-up' approaches insist on a rather minimal role of the state, reflecting a more 'market-regulation' approach. While such distinctions are helpful in determining the extent of state involvement in the development of the market and for society, it may distract our investigation toward political dynamics by overly emphasizing this aspect, particularly as economic and social reality is to a large extent informed by a mix of private-public goods. Indeed, as already addressed in the theoretical section and the discussion of the role of the Japanese state, instead of debating the optimum role of state intervention in economic affairs, it would be more appropriate to ask 'what kind' of state intervention would help improve state performance.

In assessing the specific challenge the nature of the Japanese state represents, Reed claims, that there is a bias 'to compare Japan only to the United States and a tendency to compare Japanese reality to Western ideals instead of Western realities' (1993, p.6). Yet, as Johnson notes, none of the major schools of Western economic theory, including neo-classical, Keynesian, and Marxist, had succeeded in explaining the Japanese achievement in economic development (1988). Schmiegelow too points out that Japan's experience is often explained by often comparing it with conflicting economic theories, like Keynesian, monetarist or neoclassical. Yet, what it is remarkable is the pragmatic attitude and the maintenance of direction when considering Japanese economic policy-

making. Hence, the best way to describe it is to identify this behaviour as ‘strategic pragmatism’ (Schmiegelow, 1989).

Another vital issue as to the debate about the relevance of the Japanese development experience is that interpretations of its success and failure is linked to the specific period selected in Japan’s contemporary development. Boyer and Yamada argue that:

Whereas during the 1980s, the vast majority of authors were praising the coherence and dynamic efficiency of Japanese institutions and organizations, the 1990s experienced a complete and brusque U-turn. Any feature that was perceived as a trump card for Japan was then portrayed as clear evidence of archaism, irrationality and inadequacy for the new trends of the world economy (2000, p.3).

Consequently, assessing both success and failure of the Japanese state and its development model requires the application of a long-term horizon. In doing so, we then can also avoid overly focusing on either its success or its failure, which represents a widespread approach in analysing the performance of the Japanese state and of its political-bureaucratic-economic regime.



Both case studies alert us to the challenges involved in analysing complex political development as well as to the potential challenge in applying some of the established criteria for political analysis, like the state-market dichotomy. Despite that their

continued relevance as analytical tools is still widely accepted, they do not fit well with the complex reality of political dynamics studied in these cases. Indeed, they challenge various established positions of economic and political development, the role of the state in facilitating economic growth and development in general. These case studies also remind us of arguments presented in the theoretical section, that since politics involves a dynamic mix of market and government intervention, they should no longer be identified as opposing principles, but instead of as complementary.

Existing variations of state-society and state-economy relations demonstrate explicit domestic arrangements, based on institutionalized compromises, informed by particular circumstances at a specific historical moment in time. Therefore drawing attention to the crucial importance of a particular national environment for the occurrence and dynamic of complex political change consequently indicates the particular relevance of the agency-structure interaction for political dynamics.

Hence, applying the concept of regime change, in analysing regime formation and regime dynamic, will provide us with a more comprehensive insight into complex political development within a specific state, and in addition allow us to examine the extent that the development experience of a particular state can be repeated elsewhere. Finally, as maintained in the theoretical section, a crisis situation is not solely a situation of impending breakdown, instead, rather a period of strategic transition, a critical juncture in state development, in which agency reacts within the context of a particular structural environment.

PART II - CHINA

As stated before, the case studies will allow us to test the value of applying the framework of regime change in the context of analysing national development and whether it offers a viable tool for investigating the dynamic of complex political change. It is argued that in applying the concept of regime change, we will not only develop a critical insight into the political-economic system of a country, but, in addition, it will also enable us to identify the dynamic and process of complex political change within a specific system.

China's development process has been exceptionally successful, not only in avoiding a system crisis, which characterised most of Eastern Europe and the former Soviet Union, when undergoing a reform process, but the Communist Party of China still remains in power after decades of reforms. Nevertheless, China's reform process represents somewhat of a paradox, as China's Maoist-Leninist regime, despite that it underwent partial change, still provides the overall context within which any political and economic development occurs. As stated in the literature review, this co-existence of a hierarchical and authoritarian system with a partial free-market approach raises further issues, as it challenges the assumption that a liberal market economy requires a pluralist political system and further offers evidence that a combination of gradual reforms and public ownership can provide an alternative path of development. China's successful reform process also generates considerable attention as it is gradual, pragmatic, and piecemeal in nature and distinguishable from a 'shock therapy' approach, which is often described as the most appropriate for introducing economic reforms.

Yet, despite accepting such a position, the specifics of a particular case are often overlooked and consequently the challenges involved in applying a particular and successful reform process as a blue print for other cases is underestimated, even it carries valuable lessons. It is argued that applying the framework of regime change will help to address both this apparent inconsistency as well as to highlight that one has always to remember the particularity of a case when considering applying one reform concept, which may work in one case, but may not fit as a blue print for other cases.

The continuous hold on power of the Communist Party of China (CPC) and the gradual, and path-dependent character of the reform process, points toward the dynamic interaction of agency and structure. Hence, it is therefore argued that the reform process draws attention to the dynamic interchange of strategically acting agency operating in the context of a particular strategic environment, and consequently it will enable us to overcome a singly focused interpretation of complex political change, exclusively based either on the power of agency, or the omnipresence of a particular structural environment. Though it should be emphasized, that the reform process constitutes a fundamental political project, a response to a severe political-economic crisis the CPC faced in the aftermath of the Cultural Revolution, therefore the reform process should not be interpreted as an inevitable course of action (Ploberger, 2014, p.317).

Even so, the extent and nature of the reform project was limited from the beginning, as a change of the communist system was never on the agenda, indeed, if anything, the reform process aimed to re-strengthen the existing regime's position. Yet, even as this

was achieved, the reform process also increased the systemic stress the regime had to manage and which was described as an intrinsic dilemma in the theoretical part.

The timeframe selected covers the period from the beginning of reforms in late 1978 until the 16th Party Congress, held in 2002, where the CPC adopted the concept of the ‘Three Representatives’ which decrees that capitalists are allowed to join the CCP. As such, the analysis focuses on a critical period in contemporary China’s political and economic development and examines to what extent we can identify either a regime shift (change within the established regime) or regime change (change of the regime). It is argued that we can observe a process of regime shift instead of regime change.

Yet, in identifying both continuation and change within the Chinese regime the evaluation will focus on the following topics:

- evaluating the changes made within the public policy framework with a focus on the incremental changes and adaptations introduced to the underlining consensus the regime is based on. In addition, a focus on the reformulation of this consensus which was introduced at various intervals between the 12th to the 16th Party Congresses.
- the opening of the former closed economy, as another indication of partial structural change, introduced by the prevailing regime.
- developments in the political-economic structural change within rural China which led to both a change of the public policy profile and fundamental structural change.

Even so, the direction of the reform/opening process was neither the logical nor the inevitable outcome of the initial reform/opening strategy nor did it follow a purely economic logic. Rather the reform/opening process is the result of cumulative steps and often unintended consequences in the context of complex political processes.

Despite the inherent limitations of the reform project, as a change of the existing regime was never on the agenda, it is argued that we can observe incremental changes, indicating the occurrence of a regime shift with various changes in the public policy profile, a reformulation of the consensus the regime rested on in addition to the structural changes within the rural economy and administration.

The following chapters will examine these developments in more detail. However, to develop an insight into the existing regime prior to the reform/opening process it is imperative to analyse the underlining features of the regime at that specific historical juncture and the nature of the Chinese state.

Chapter 4 – Identifying the underlining features of the Chinese regime and the pressure for change

4.1 Identifying the pressure for change

In examining the underlining dynamics of change we can observe during the 1978-2002 period, it is vital to remember that the reform process was related to the fundamental political-ideological crisis the CPC faced in the aftermath of the Cultural Revolution (Ploberger, 2010, p.28) and the structural context at the beginning of the reform process; namely China's Maoist past as a revolutionary state, characterised by various political campaigns and class struggle that consequently affected and alienated large parts of Chinese society from the communist movement.

During the Cultural Revolution the targeted group also included members of the CPC itself, thereby alienating many cadres with the excesses of radical Chinese Communism in addition to the mass of ordinary people who suffered enormously. In assessing the impact of the Cultural Revolution, Pye (1986, p.597) points out that it caused one million deaths, with 100 million people identified as victims. Moreover, he argues that all institutions – from the family to the school, from the Party to the Government – were profoundly affected by it and left in disarray. Xiuyuan (1994-95, p.534) reminds us of the personal dimension of the Cultural Revolution, as its victims were paraded through streets, tortured, forced to undertake physical work in remote locations, with many committing suicide to escape the terror or being killed, often with their family members

suffering the same fate. Hua Guofeng addressed the destructive impact of the Cultural Revolution in his work report at the Fifth National People's Congress in June 1979, by stating that

In many parts of the country, beatings, smashing and looting were perpetrated, assaults made on government offices and production and transport disrupted, resulting in terrible suffering among the people. The pernicious influence of anarchism remains at present an important factor in disrupting stability and unity (Hua Guofeng, 1979, p.78).

The impact of the Cultural Revolution was still felt within the society and the leadership, and Ching (1979, p.691) asserts that even as both the Third Plenum (December 1978) and the Second Session of the Fifth National People's Congress (June 1979) endorsed economic modernisation as the main focus and ideological liberalization was on the horizon, people were sceptical about the future and it seems that the Party was on probation. Hence the challenge the existing regime faced was how to re-gain its political legitimacy and re-establish itself as a coherent and credible principal of Chinese politics.

In addition, to these political challenges a dire economic situation during the 1970s added to the challenge the regime faced, since the backwardness and underperformance of China's economy also included a significant political-ideological component and a direct threat to the underlining consensus the regime rested on in challenging the assumption that socialism was not only an alternative, but a more successful avenue of

economic development than capitalism. Accordingly, the superiority of socialism should present itself in the speed of economic development.

Though, if socialist inspired economic growth could not surpass capitalist based growth, socialism risked losing much of its legitimacy and with it the consensus the regime is based on. Deng Xiaoping was acutely aware of these implications and he directly addressed this issue in September 1978:

In today's world, our country is counted as poor. Even within the third world, China still rates as relatively underdeveloped (Deng Xiaoping, September 1978).

Adding that,

If the rate of growth of the productive forces in a socialist country lags behind that in capitalist countries over an extended historical period, how can we talk about the superiority of the socialist system? We should ponder the question: What have we really done for the people? (Deng Xiaoping, September 1978).

Moreover, this economic backwardness also carried a nationalist aspect with it, as it deprived China of belonging to the group of leading nations. After all, restoring

‘China’s rightful place’ among the leading nations in the world, was a goal for all Chinese governments since the early 19th century, independent of their political colour⁶.

To put the prevailing situation China faced in the late 1970s into perspective, it is worth remembering not only Hua Guofeng’s statement in his work report to the Fifth National People’s Congress in 1979 that: ‘The present level of our productive forces is very low and falls far short of the needs of the people and the country’ (Hua Guofeng, 1979, p.21), but also that Prime Minister Zhao Ziyang highlighted, in his report to the 13th National Party Congress in October 1987, that a crucial indication of the success of the reform course was that it enabled the government to provide enough food and clothing for the overwhelming majority of China’s population (Zhao Ziyang, 1987, p.4).

The implications of the Cultural Revolution and the dire economic situation in the 1970s were that the existing institutional fabric came under increasing systemic stress and was no longer seen as appropriate to manage the existing challenges, resulting in the development, of what was described in the theoretical section as, an ‘intrinsic dilemma.’

Even so, it is vital to remember, as discussed in the theoretical section, that a crisis does not simply refer to a situation of immediate breakdown, but instead to a strategic moment of decision-making. As such, a crisis is a critical juncture in the development of a state in providing an opportunity for re-thinking or re-building an existing

⁶ In his study on the rise of Communism in China, Johnson observes that it rose to power on the back of a specific nationalist movement during the resistance war against Japan (Johnston, 1962).

institutional setting; it may also offer an opportunity of re-formulating the existing consensus of a regime. China's reform/opening process is a primary example.

We should also recall the enduring impact a particular structural setting has on future development and the reform process also provides an exemplarily example, as not all available courses of action are applicable in the context of a particular structural setting. In the case of China, this applied to both the public policy profile and the consensus the regime rested on. As such the response and the solution to the severe economic problems China faced in the late 1970s, and the related political challenges of the CPC, were as much dictated by political considerations as economic ones.

This challenge was well recognized by the Chinese leadership at the time and addressed in both the Communiqué of the Third Plenary Session of 11th Central Committee in 1978 and in Hua Guofeng's work report to the Fifth National People's Congress in June 1979. In both cases, clear indications of a first attempt of reforming the political-institutional setting were made in changing various aspects of the regime's public policy profile and the underlining consensus the regime rested on.

4.1.1. The Third Plenary Session and the Fifth National People's Congress

It was at the Third Plenary Session of the 11th Central Committee of CPC, held in December 1978, at which the beginning of the reform/opening process can be identified. At that meeting crucial steps were made to set China on a new course of development.

The meeting not only abolished the "two whatever" policy⁷, but re-established the guideline of 'seeking truth from facts'. It further recognised that the existing overconcentration of power and authority was a serious impediment on economic output and that a reorganisation of the state administration and the establishment of a modern state structure were required. Hence the Communique stipulated that the Party should cease to substitute itself for both government and economic administrations (Communique, 2009).

Despite the potential negative impact on Party dominance, there were prominent voices within the Party arguing in favour of, at least partially, re-structuring the Party-state relationship, albeit strong conservative forces within the Party still resisted implementing any changes in the Party-government symbiosis. One of the most prominent advocates was Deng Xiaoping himself, though he was not the only one who identified the over-concentration of power as a serious challenge to socialist modernisation that is reflected in his statement -

It is time for us to distinguish between the responsibilities of the Party and those of the government and to stop substituting the former for the latter (Deng Xiaoping, August 1980)

The Communiqué of the 11th Third Plenary Session emphasises, that in identifying the correct path of development, the Party has to proceed from reality and then link theory

⁷ Hua Guofeng favoured a political position which was described as the 'two whatever' policy. According to this position, whatever policy Mao endorsed, whatever he did and said, shall always determine our own actions.

with practice, and only then will it be able to identify and implement the appropriate strategy of development. It further stated that though upholding Mao Zedong Thought (MZT) as ideological guidance, the concrete practice of socialist modernisation under new historical conditions should be integrated and further developed (Communique, 2009).

The plenary session equally highlighted the importance of improving the people's livelihood and for that purpose, the main effort concentrated on the agricultural sector, as this sector was the foundation of the national economy. The relevance of increasing agricultural production was also underlined by the fact that not only did eighty percent of China's population live in rural areas, but equally huge parts of China's rural areas were still underdeveloped.

A prominent topic that emerged was socialist modernisation, which provided a first indication for introducing change in the prevailing public policy profile of the regime. Indeed, the subject of socialist modernisation was repeatedly stressed throughout the communique and in response to the economic challenges China faced at that time. It was further emphasised that since China's economy was still very backward, it was impossible to improve the people's livelihood rapidly, adding that this requires a shift in the focus of the party's work, towards socialist modernisation (The Third Plenary Session of the 11th Central Committee of the Communist Party of China 2009).

The critical importance of socialist modernisation is also referred to in Hua Goufeng's work report to the Fifth national People's Congress in 1979, in his statement he outlined that

If we do not make good use of this precious, hard-won opportunity, go all out and do everything possible to speed up socialist modernization, our generation will be unworthy of our country and people. We will have failed in our duty to the cause of socialism in China (Hua Guofeng, 1979, p.17).

Alike Deng Xiaoping argued for a re-orientation of the Party strategy, stating that the principal contradiction in the current period is

The level of our productive forces is very low and is far from meeting the needs of our people and country. This is the principal contradiction in the current period, and to resolve it is our central task (Deng Xiaoping, March 30, 1979).

These are the first indications of re-interpreting the existing consensus by directing the emphasis away from ideologically inspired class struggle, and, as stated in the Communique, towards accelerating socialist modernisation as well as creating a modern and powerful socialist country on the basis of rapid growth and through the modernising of production (Communique, 2009).

Even if it seems in retrospect as an almost logical step forward to introduce economic modernisation, Pye (1986, p.610) argues that without the shock of the Cultural Revolution, it is almost unthinkable that China would have adopted such bold modernisation policies in the post-Mao period. This reminds us of the significance of a ‘crisis’ as a fundamental stage in state development. However, there is no denying the momentous impact the Cultural Revolution had on post-Mao politics, but it is also worth remembering that many reform steps were not genuinely new developments, as they were similar to policy proposals presented at the 8th National Party Congress in 1956, but were not implemented because of Mao’s resistance to them.

Although the Third Plenary session is now interpreted, rightly, as the watershed in post-Maoist China, it is still important to acknowledge Ching’s (1979, 693) assessment at the time, that despite all the positive signals it provided, people continued to question the merits of socialism and the role the Party played in China’s more recent history.

Connected to this political challenge, the CPC faced another fundamental challenge as to how to interpret and evaluate Mao’s role during the Cultural Revolution. Kluver reminds us of the dilemma the Party and its leadership faced as the credibility of the Party itself was on trial. If Mao were shown to be a tyrannical emperor, the prestige of the entire revolution would be threatened, and consequently risked undermining the CPC’s political authority in post Cultural Revolution China (1996, pp.52-53). This challenge was underlined by the fact that not only did Marxist-Leninist-Mao Zedong Thought provide the legitimising consensus the regime was based on, but also Mao’s

omnipotent position within both Chinese communism and Chinese politics was in question.

The challenge of evaluating Mao's role during the Cultural Revolution is evident in the Communique which stressed 'without his outstanding leadership and without Mao Zedong Thought, it is most likely that the Chinese revolution would not have been victorious up to the present' adding that 'it would not be Marxist to demand that a revolutionary leader be free of all shortcomings and errors' (Communique, 2009). It was further stated that his mistakes and shortcomings should be addressed at a later time, which actually was discussed in the document 'Comrade Mao Zedong's Historical Role and Mao Zedong Thought - Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China', published in 1981. However, we will come back to this issue at a later stage.

Another indication of the strong pressure the CPC was under is that in facilitating faster development, proposals were also put forward to address the newly recognised overconcentration of power, especially with regard to economic management, but not limited to this sphere. As stated in the Communique a serious shortcoming in the structure of economic management in China was the over-concentration of authority, and that it was imperative to address the failure of making no distinction between the Party, the government and enterprises and to put an end to the substitution of the Party for government and the substitution of government for enterprise administration (Communique, 2009).

Taken together, these statements provide a clear indication not only for a break with the revolutionary past from the turmoil of the Cultural Revolution, but equally outlined the direction of the early reform strategy. However, it is vital to be aware that the transformation of Chinese socialism began in the structural context of the Maoist state, albeit weakened by the Cultural Revolution; as such we should develop an understanding of this structural environment, which is the focus of the next section.

4. 2. Identifying the existing regime before the onset of the reform/opening period

In analysing the nature of the Chinese regime in the pre-reform period, the discussion should not only focus on the characteristics of a Soviet-style centrally planned economy, but also the specific features of the Maoist system as well as the party-state symbiosis and the party dominance of the state institutions.

4.2.1 The legacy of the Maoist state

In respect to the Soviet style centrally planned economy implemented in China, the following characteristics can be identified: state ownership of industrial enterprises; organisation of the agricultural sector into large-scale collectives; centralised bureaucratic management of the economy with government planners defining output and supply quotas, prices, and wages; capital investment provided as free government grants; an extensive growth strategy designed to achieve high rates of economic growth; an emphasis on establishing a heavy industrial sector; state revenues based almost

entirely on industrial profits; setting a deliberate low price level for agricultural commodities and raw materials, as to increase the profitability of industrial production; disparagement of the service sector and prohibitions on private business; a closed economy with foreign trade plans treated as addenda to domestic plans (Shirk, 1993, p.24). These measurements together led to a particular public policy framework, which as we will see, underwent partial changes over the course of the reform process.

However, focusing on the specific feature of the centrally planned economy would not be sufficient to describe the Chinese state in the pre-reform era, nor in identifying the existing regime before the onset of the reform period.

To start with, Maoist China also embraced the idea of a permanent revolution on the path towards socialism; critically, the revolutionary process did not cease when the CPC took power, but instead the revolutionary process has to be interpreted as a continuing struggle (Chan, 2003, p.115). Mao utilized the argument of a permanent revolution repeatedly when he called for the implementation of specific goals, by way of mobilising the masses thereby deliberately weakening the Chinese state's structure. Both the 'Great Leap Forward' and the 'Cultural Revolution' provide evidence of the negative and disastrous impact of the revolutionary character of the Maoist state. Lieberthal (1995, p.82) points out, that Mao never fully resolved the tension between the inherent instability of a permanent revolutionary process and the need for a stable state administration for continuous and predictable economic development.

This particular focus on the power of the people by manipulating the use of mass-movements, informed various other central features of Mao's political strategy, among them we can identify the mass line, campaigns and struggle.

The importance of the mass line was based on the assumption that it would ensure that officials in power would not only remain in direct and close contact with the masses, but also report up the hierarchy the concerns and desires of the people, thereby informing the leadership of the concern of the population consequently enabling them to act in an adequate fashion. However, it was contingent upon the top leaders, with their superior understanding, to act accordingly and to facilitate a pragmatic strategy, so that the population accepted the revolutionary goals.

Campaigns, Lieberthal argues, symbolize a concerted focus on specific issues through mass mobilisation, aiming at socio-political transformation and economic development. They enabled Mao to circumvent the bureaucracy by implementing his radical measures directly, thereby keeping the revolutionary character of the Maoist state alive (1995, pp.66-7). Lieberthal further highlights the significance of struggle as one of Mao's instruments to facilitate his revolutionary strategy. The deliberate violation of social norms was a calculated strategy to change the social fabric and social identity of China's masses. Struggle was highly personal, direct and violent, because its very aim was to destroy existing social networks and thereby facilitate Mao's desire to reform and revolutionise Chinese society (Lieberthal, 1995, pp.68-9).

In particular, campaigns and struggle alienated large sections of the Chinese society

over the years from the communist movement, as different groups of the population found themselves targeted in various campaigns. Furthermore, during the Cultural Revolution the target of struggle also extended to members of the CPC itself, estranging many cadres with the radical face of Chinese Communism, with an equally lasting impact on Party members as it had on China's population. Hence, the often brutal struggle during the Cultural Revolution had a decisive impact on the occurrence and the early direction of the reform movement in the late 1970s.

Yet, we can identify additional aspects of Maoist China. Among them are anti-intellectualism, class-struggle and self-reliance. Yet, all of them had an adversary impact on China's development. For example, anti-intellectualism had a significant impact on the country's developmental progress, as it ushered in a period of neglect of professionalism and qualifications in favour of 'ideological' considerations when staffing government and state institutions.

Another feature underlining the Maoist system was the strategy for 'national self-reliance'. This strategy had a far-reaching political as well as economic impact, as it not only favoured independence from the international economy but also led to a replication of industries at the regional level, as a provision to the possible threat of a foreign occupation of parts of China's territory. Yet, this duplication of important parts of various industries and parts of the agricultural sector, led to increasing problems of overcapacity in the reform period. The rejection of the market was yet another feature of the Maoist public policy framework and it is worth recalling that labour was not considered a commodity to be sold in pre-reform China.

When considering the structural environment at the onset of the reform-period and during its early period, the personal standing and influence of particular leaders was another important source of political power. Yet, with the death of Mao, the influence of a single paramount leader waned. Despite that Deng Xiaoping stood out among other Chinese leaders, he had to rely on coalition building and negotiation with other powerful elderly colleagues like Chen Yuan, Li Xiannian, Bo Yibo, Peng Zhen, and Wang Zhen to be able to implement his policy strategies (Lieberthal, 1995, p.187). We may also recall that China was ruled into the 1990s by the original Party revolutionaries who seized power in 1949 after a prolonged military struggle in which many of them participated. This had proven to be a major obstacle to the development of enduring political institutions and the requirement for Deng Xiaoping in building various and changing coalitions to implement his reform program. This certainly had a strong influence on the dynamic of the reform/opening process, as did the need for taking into consideration ideological imperatives.

Such a structural environment certainly limited the adaptiveness of political strategies to a changing domestic and international context, which in turn limited the regime's ability of managing pressure of change by implementing partial adjustments; consequently increasing the likelihood, that was described earlier, of an intrinsic dilemma to develop over time.

4.2.2 The party-state symbiosis

It is apparent that the Communist Party of China is the source of political power and has the absolute authority to legitimise and control all other political and social organisations. It alone determines the social, economic, and political goals for Chinese society. Thus, as highlighted by Burns (1999, pp.580-1) China's political system exhibits the characteristics of a mature Leninist state with the CPC holding supreme power, leading to a situation in which the existing regime is occupying an almost omnipresent position by paternalising the state as well.

This dominance of the Party over the state and its institutions is also described as party-state vanguardism. Womack argues that the underlining rationale is that the party can develop and modernise China as fast as possible, whereas competing social-political organisations would undermine the speed of this development process (1990, pp.16-7).

This Party dominance over the government finds its formal legitimation in the Chinese constitution, with an emphasis that the Party represents the core leadership of the Chinese people. Consequently, governmental institutions have to serve the Party. The Party-state not only penetrates every aspect of society, it also claims that it is serving the interests of the masses and consequently is not limited by society.

However, since the CPC came to power in 1949 a further challenge was that the governing capacity of the CPC was inadequate to govern the whole of China. As such it has had to rely on the state administration to do so. However, the challenge for the party remains how to ensure that state institutions will carry out the political goals of the party. Fundamentally, the Party's influence over the government institutions is

organised in a way that enables the Party to monitor how the government executes its instructions.

Shirk describes the Party-government relationship as an 'agency relationship' with the CPC as the 'principal' and the government as the 'agent'. Accordingly, the Party holds the formal political authority over the government, whereas the government actually administers the country (Shirk, 1992, p.61). Hamrin reminds us that this Party-government symbiosis was developed at the height of the Great Leap Forward. In 1958, the Party began to exercise more direct administrative authority and successively undermined the autonomy of the state. Consequently, the government became essentially the executive organ of the Party, rather than of the state (Hamrin, 1992, p.98).

Equally, Wang also emphasises that the Party controls the government institutions through an interlocking system of personnel control and the Party structure, which parallels that of the government institutions. For example, the Politburo is functionally organised to parallel government ministries, with members specialising in various governmental activities (Wang, 1995, pp.93-4). Despite the CPC's dominance over government and state institutions, separate Party and government institutions can be identified, with specific functions attributed to them.

Among the Party institutions identifiable at the centre are the Party Congress, the Central Committee, the Politburo, and the Politburo Standing Committee. The highest Party body, which represents a nominal supreme authority, is the National Party

Congress.⁸ The meeting of the National Party Congress constitutes a major event as it sets out the central political tasks for the Party.

However, concerning the government structure, the National People's Congress comprises the highest administrative and political authority of the government. Yet, when identifying the body, which holds a comparable function to a western style cabinet, the State Council would be the correct institution to identify. The State Council also is the highest executive organ of the administration and consists of the Prime Minister, Vice Premier, state councillors and all heads of commissions and ministries.

With reference to the various territorial levels, the centre reaches out and down to the local level via its bureaucratic structure, as does the Party organisation. There exists three nationwide bureaucratic hierarchies - the Party, the government, and the military - and four major civilian territorial entities - ranking from the Centre, the provinces, the counties, to the township level (cities) which also has responsibilities and jurisdiction over village organisations, which are linked to a particular township. However, the importance of the county level rests in its very link to the people, as policy decisions made at other levels are required to be implemented at the county level. However, it is at the village level where the bureaucratic organisations of both Party and government come finally into direct contact with the population.

⁸ With regard to the CCP's internal organisational structure, Wang reminds us that the nature of the CPC's organisational characteristics is hierarchical, pyramidal, and centralist (1995, pp.67-8)

In response to the political-administrative structure at the various territorial levels, as described above, and in dealing with the central bureaucracy of both the central government and central Party organs, a complex administrative structure developed. Lieberthal described it as a complex matrix of vertical (tiao) and horizontal (kuai) authorities and bureaucracies, which resulted in serious governance problems as it generated a situation in which the highly authoritarian nature of China's political system is actually fragmented as officials have to report to various heads at different bureaucratic hierarchies (Lieberthal, 1995, pp.169-70). The implications are that such a fragmented authority not only hinders the implementation of specific policies, but also impedes the adaptiveness of the system when confronted with systemic stress during a crisis.

Mackerras is equally concerned about this situation of overlapping authorities and describes the overall principle of Chinese politics as one in which the CPC leads and formulates policy, whereas the government implements that policy, noting that this arrangement has increasingly come under pressure (1998, p10). Alike Zheng argues that the Party dominance over the government and government institutions at all levels creates a mix of overlapping authorities and responsibilities, but the party failed to come up with a viable solution to these overlapping authorities and confusing responsibilities, which undermine the state administration (1997, p.195).

It is clear that a structural framework characterised by fragmented authority and overconcentration of power not only hinders the implementation of policies but also hampers the adaptiveness of the system in times of system stress and during periods of

crisis. These shortcomings were increasingly highlighted in the course of the reform/opening process, as flexibility and adeptness at the provincial and local level became increasingly important. An issue already recognised by the Party reflected in attempts to separate party influence from both government and administration that became an essential requirement in the process of modernising China's economy and its administration as well as de-centralising the concentration of power.

As already mentioned, in the section on the Third Plenary Session, it was stated that the overconcentration of authority and the failure of recognising a distinction between the Party, the government and enterprises required reforming as did the Party substitution for the government. However, this was neither the first nor the last statement made with regard to this subject; indeed Deng Xiaoping made it a prominent issue in his drive for socialist modernization as well, stating that it was crucial to acknowledge the over-concentration of power, as this give rise not only to arbitrary rule by individuals but also facilitated bureaucratic behaviour (Deng Xiaoping, August 1980). Professionalism became the byword for administrative reforms.

As we will see, the reform/openness process increased this pressure and facilitated strategies for redefining the party-state symbiosis, thereby weakening the Party control over the government and government institutions.

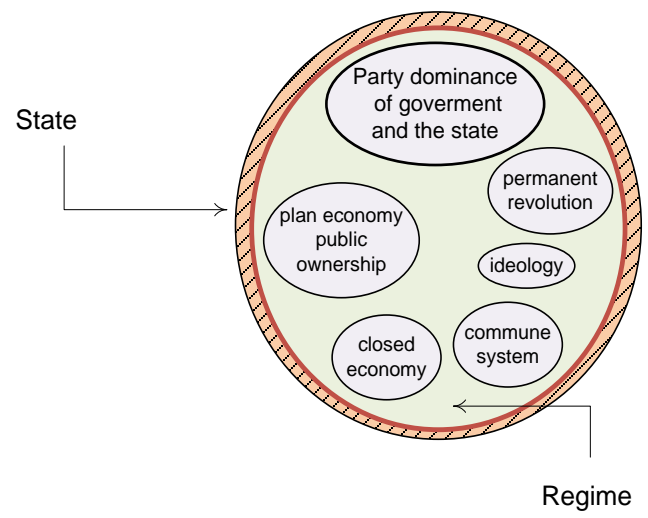


Consequently, the regime we can identify at the beginning of the reform/opening process can be characterised by its strong party dominance over state institutions and state administration, as well as by the background of a Maoist-Leninist structure as described above. With regard to the economic sector, the Chinese economy was a closed economy built upon a system of public ownership and central planning where economic resources and their distribution were centralised and utilized in accordance with the regime's aims, hence forming a distinctive public policy profile.

Figure 5 provides a schematic demonstration of the Chinese regime before the onset of the reform/opening process. It should be noted that the dominance of the party over government and state is reflected in the rather small space reserved for the existence of the state as the structural environment. However, even in the context of a one-party state setting, the impact of the state as a structuring entity is not rendered obsolete.

This structural environment had a strong influence on the reform leadership as it limited the options available to them; as regime change was not on the agenda. Neither was the formulation of reform strategies which may diverge from the underling ideological foundations of the regime. One response to this limitation was to reformulate the underlining ideology so that the implemented reform measures could be interpreted as being in accordance with it. This process provides insight into the dynamic and extent of regime change since the onset of the reform/opening process.

Figure 5 – the Chinese Regime



Chapter 5 – The Reform process: generating economic prosperity and providing social and political stability - a recipe for Regime Change?

The previous chapter's focus on the pressure for change and nature of the Chinese state provided a starting point for analysing to what extent we can observe a dynamic of either regime shift or regime change in the context of China's reform process.

Yet, the mere pressure for political and economic change itself does not necessarily indicate the direction and extent these reforms should and ultimately will take. After all, a reform strategy has to cope with various challenges, which could be political, economic and social in nature, but more often, such challenges are a combination of these factors. Moreover, such conflicts will impact on the speed, nature and process of regime change.

However, changes made within the economic sector highlight some of the fundamental changes implemented since the reform process began in 1978 that undermined the regime's ability to formulate and implement its policy by changing the structural framework of the plan economy and with it the regime's public policy framework.

5.1 The Reform Period - the pressure for reforms: declining political legitimacy and the need for increasing the living standard of the people

The strategy of the Chinese leadership around Deng Xiaoping, to embark on economic reforms without accompanying significant political reforms, appeared to work. Still, it is important to be aware that the process of introducing market economic features into China's planed-economy and the changes this generated in the regime's public policy profile which was not as particularly straightforward as it may looks in retrospect despite huge economic gains, clearly indicated in the curve of the gross national product (Figure 6), will form the topic of the following sections,,

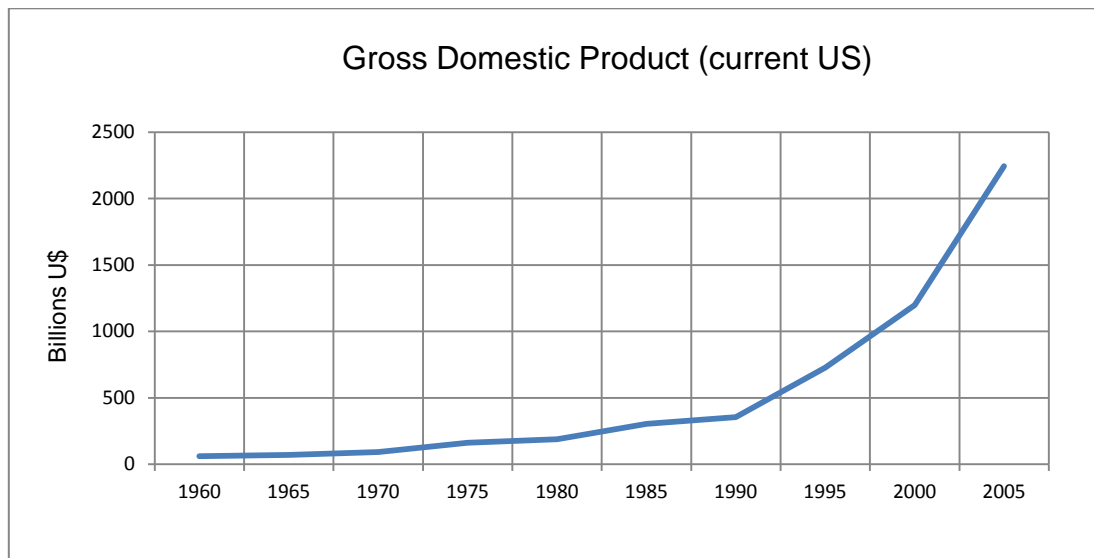


Figure 6 - Gross Domestic Product (current US) Source: Derived from various editions of the Chinese Statistical Yearbook (1996 /97 /98)

China's economic development since the onset of the reform process, especially from the 1990s onward, is also impressive when compared with the economic performance of other countries during the 1980-2003 period (see Figure 7).

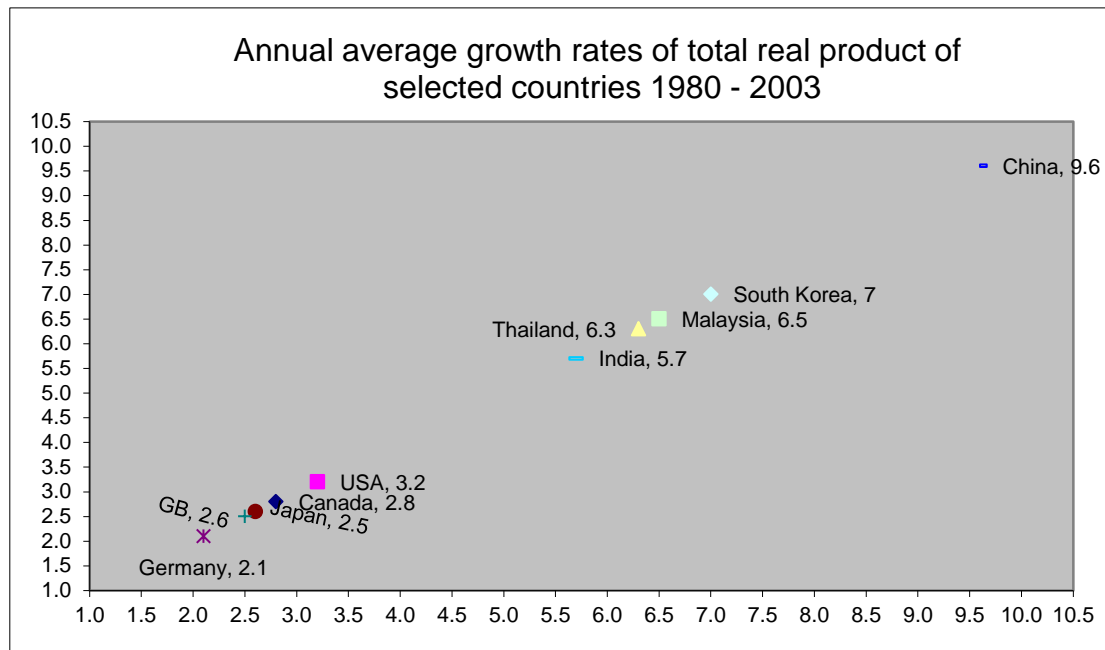


Figure 7 - Annual average growth rates of total real product of selected countries 1980-2003 Source: UNCTAD Handbook of Statistics 2005

Even when taking into consideration that China started from a very low level, and that some of the dramatic increase of its GDP is related to a ‘catch up’ phase, the increases achieved in its GDP are still remarkable and impressive. Although an international comparison of GDP in absolute terms puts China’s economic growth in a rather different perspective, however it still indicates the successful economic growth China’s economy underwent since the reform process began (see Figure 8). In addition, China’s ranking among the exporting countries also improved dramatically as Figure 9 clearly indicates. China’s share in global exports increased from 0.9 percent in 1980 to 5.1 percent in 2002. Its ranking among the world exporting countries, improved accordingly from number twenty-six in 1980 to number five in 2002.

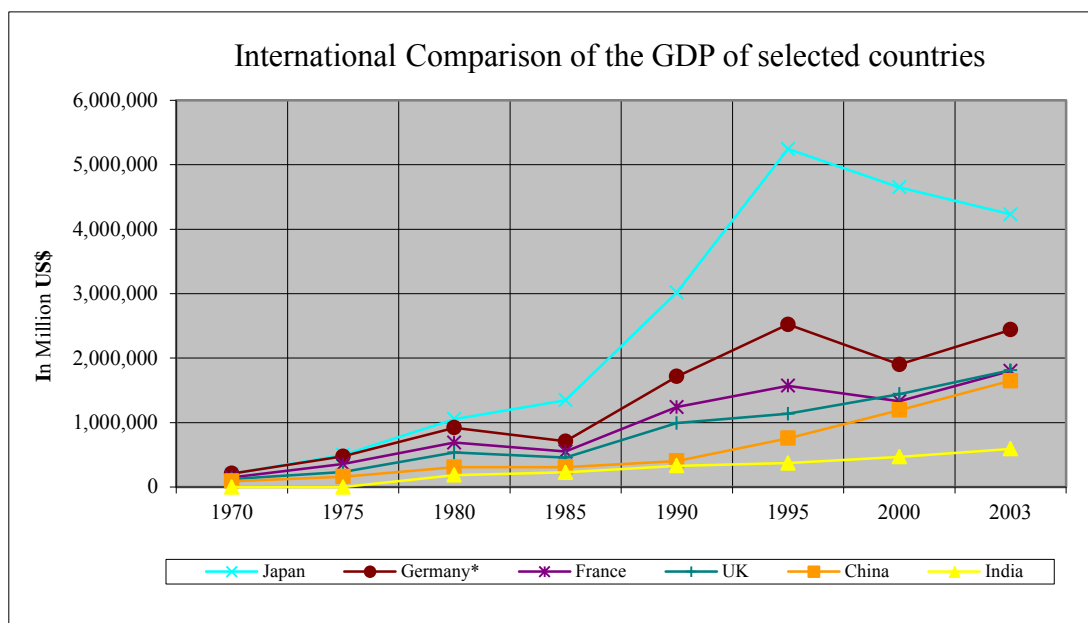


Figure 8 - International comparison of the GDP of selected countries Source: Derived from various editions of the Chinese Statistical Yearbook (1996 /98/04)

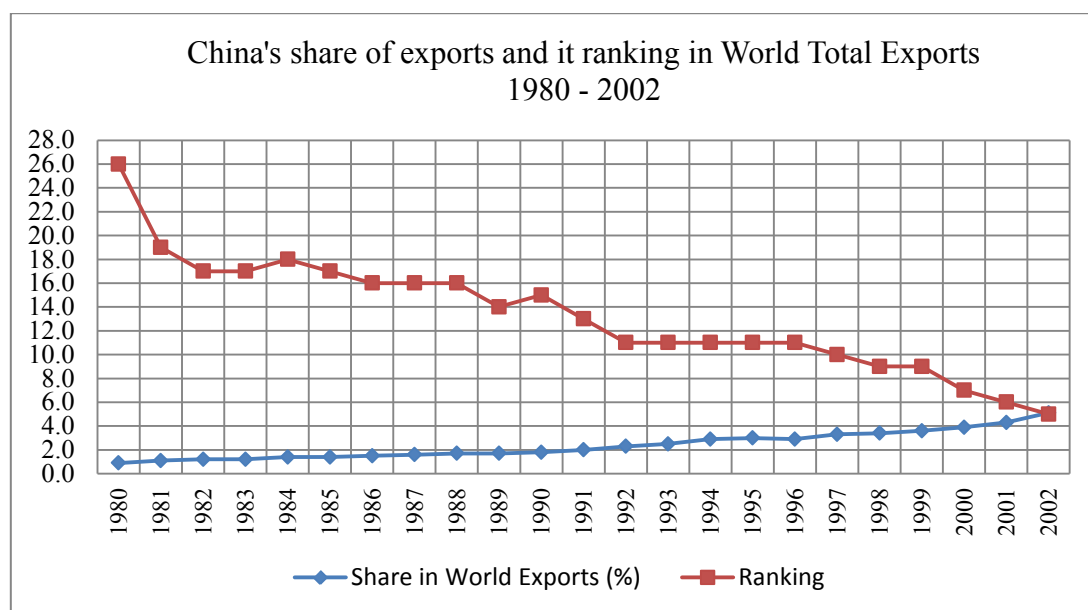


Figure 9 - China's Shares of World Exports and Ranking in World Total Exports 1980 – 2002 Source: Derived from various editions of the Chinese Statistical Yearbook (1996 /98/04)

Despite the economic success, political conflicts between reformers and non-reformers, and disagreement within the reform camp over the extent and speed of the reform measures, in conjunction with periodic economic problems, threatened at various times to derail the reform/opening project by periodically strengthen the opposition to the reform/opening process.⁹

An example for recurrent economic challenges was the threat of overheating the economy and the spectre of the recurring high inflation rate. Figure 10 clearly highlights this recurring threat of high inflation during the late 1980s and mid-1990s.

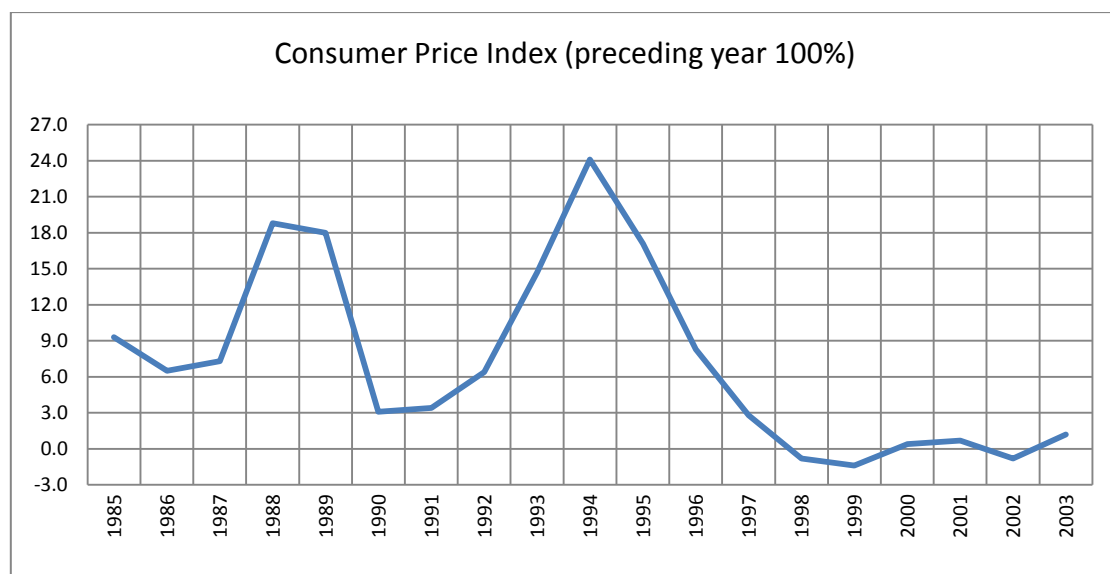


Figure 10 - Consumer price Index (preceding year 100%) Source: Derived from various editions of the Chinese Statistical Yearbook (1996 /98/04)

⁹ For example, the second half of the 1980s and at various times during the 1990s, witnessed increasing economic problems, among them was that excessive economic growth boomeranged; high inflation and an overheated economy; increasing corruption among the Party and state officials; a debt crisis (non-performing loans) within the State Own Enterprise (SOE) sector which threatened China's financial and banking system, and the closure of SOEs which not only would have increased unemployment numbers but also the social stress the regime faced, since the SOEs provided many social welfare provisions.

Yet, the reform process did generate an increase in income for huge parts of the Chinese population. Both indices, per capita income index and the engel coefficient depicted in Figure 11 and 12 respectively indicate a parallel development of the developments in Rural Household and Urban Household prosperity.

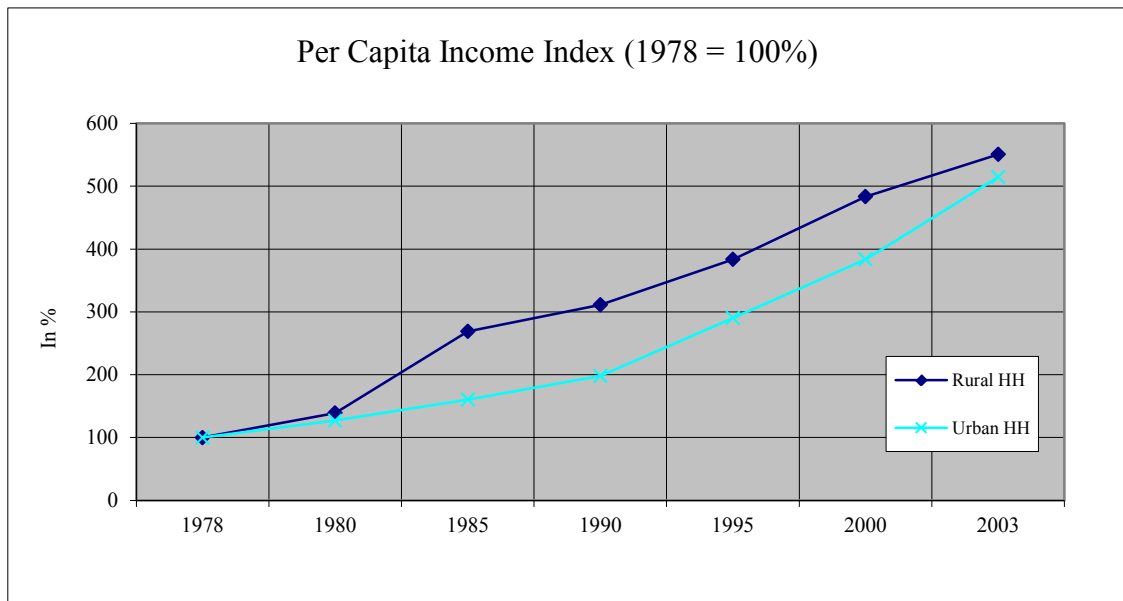


Figure 11 - Per Capita Income Index of rural and urban households (1978 = 100%)

Source: Various editions of the Chinese Statistical Yearbook (1996 /98/04)

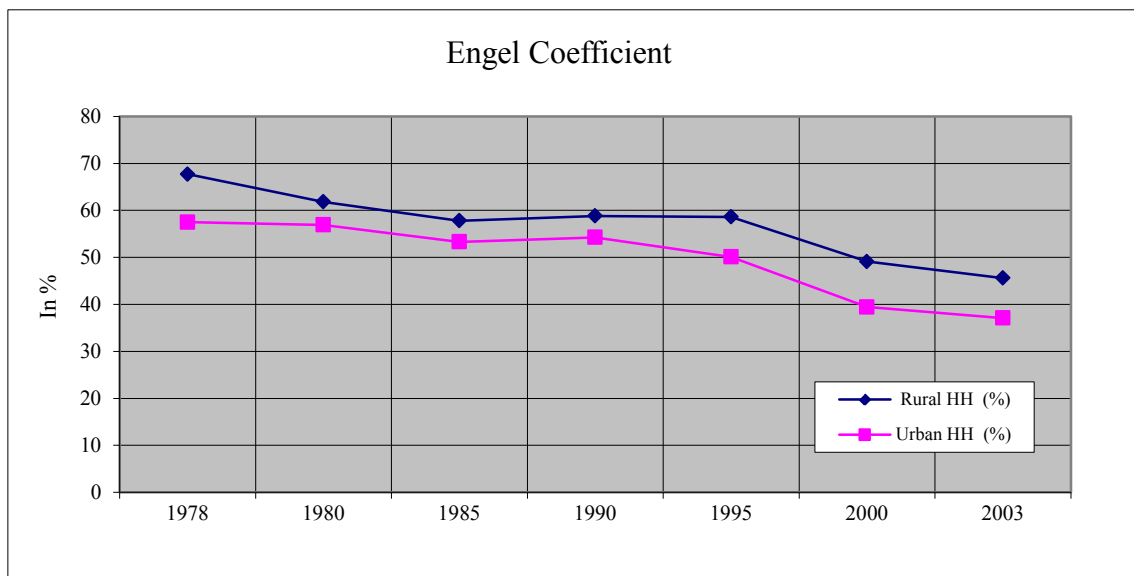


Figure 12 - Engel Coefficient of rural and urban households Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

Nonetheless, the per capita income record clearly highlights distinctive developments between rural and urban households from the 1990s onwards (Figure 13).

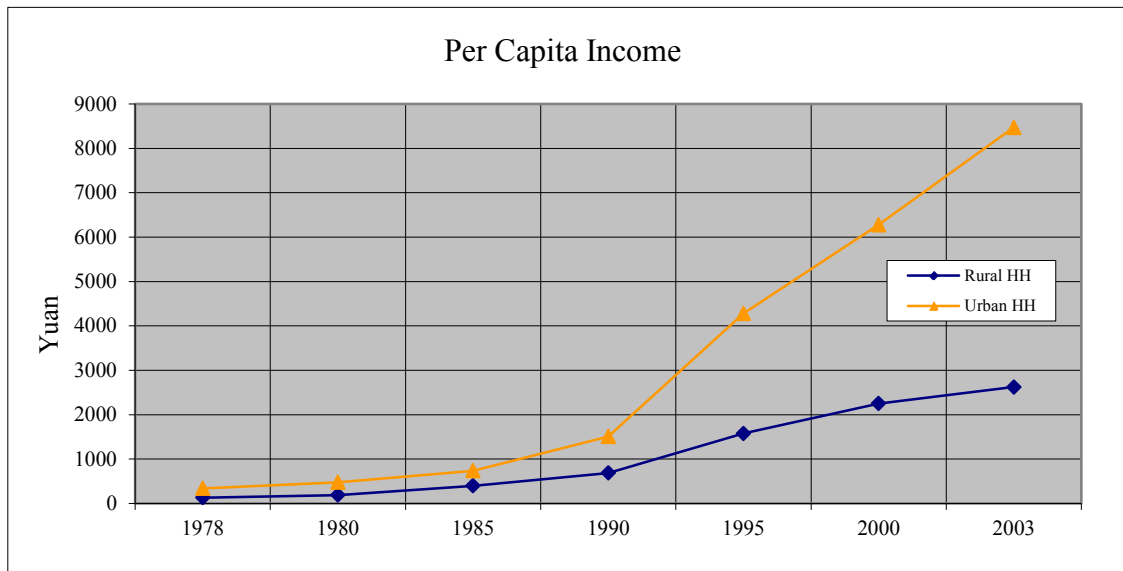


Figure 13 - Per Capita Income of rural and urban households (Yuan) Sources: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

A similar trend can be observed in the development of saving deposits (Figure 14). Thus, the last two figures indicate an increasing gap in rural- urban development, in which the emerging gap in rural and urban areas increased momentum from the beginning of the 1990s. In addition, there is also an increasing gap in the economic development between provinces and the data in Figure 15, which combines the gross domestic product of the five leading provinces with the five weakest provinces, highlights the imbalances of regional development. The persistence and acceleration of this trend led to a renewed political and social challenge for the CPC.

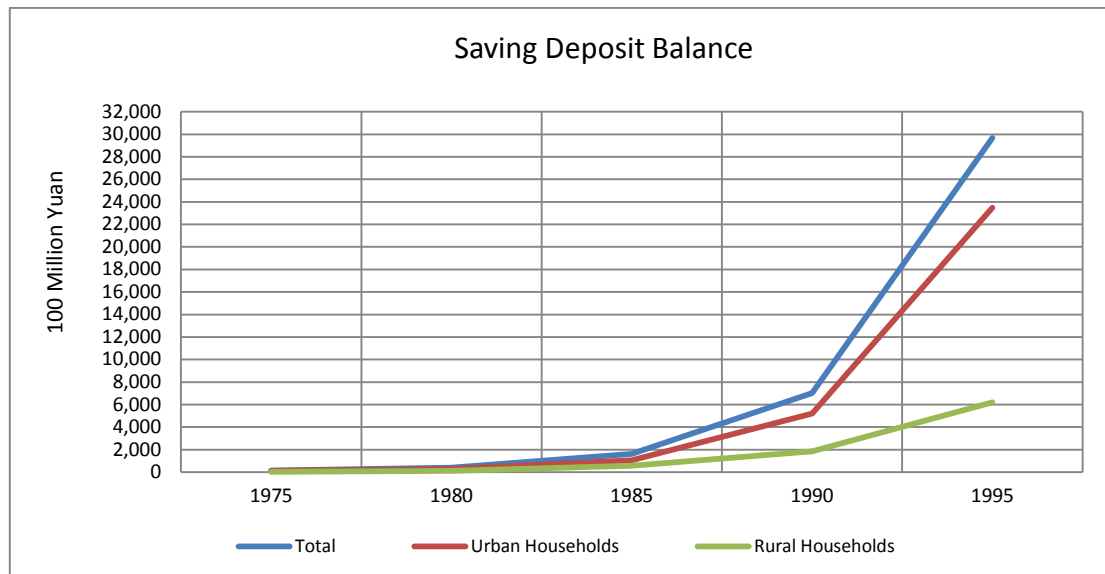


Figure 14 - Saving Deposit Balance of urban and rural households (Yuan) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/97/98)

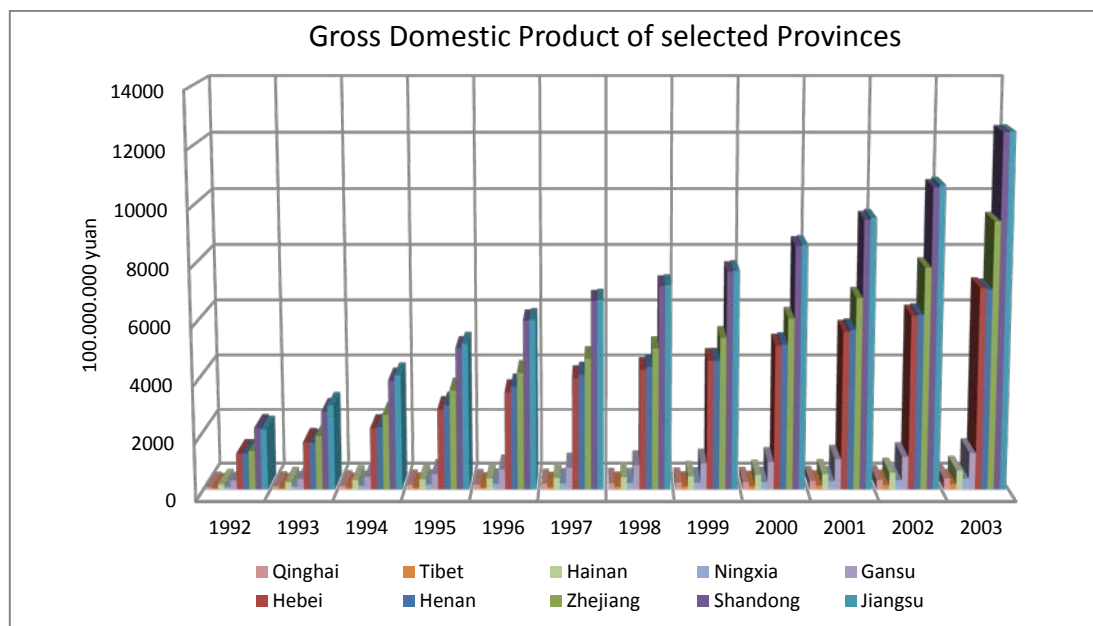


Figure 15 - Gross Domestic Product of selected Provinces (Yuan) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

A weaker performance in economic development not only carried direct economic implications but also had other, far-reaching implications including a lower quality in

the provision of welfare, a poorer quality of education provision and reduced access to medical care.

However, the success of the reform period did not come without costs, as the generated prosperity was not equally distributed throughout the country. Some of the conflicts between various provinces are to some extent linked to the political decision made at an earlier stage of the reform/opening process, as not all provinces were included in the reform process from the onset, thus enabling some provinces a head start in development.

Both trends – urban-rural divide and the provincial divide – represented not only a temporary but also a quite persistent phenomenon since the reform process began. The egalitarian order which existed before the onset of the reform process, eroded over time. Moreover, as these trends appear to be fairly persistent, the concern of how to deal with this phenomenon and its potential destabilizing impact on the political-social stability forms a serious concern for the contemporary regime. The further introduction of a more market-oriented system will, to some extent, further intensify the income inequality at the household level.

Yet, what is relevant in the context of this research is that the persistent trend of these inequalities is an unintended reform related consequence, which highlights the dynamic form of a reform process. Thus, how the reform/opening process evolved over time reveals the impact of both deliberate choices and spontaneous responses to economic and political challenges, as well as unintended consequences.

Yet, a reform project implicates a significant alteration of the existing relevance of specific economic sectors. Figure 16 and Figure 17 provide two sets of data, which clearly illustrate these developments.

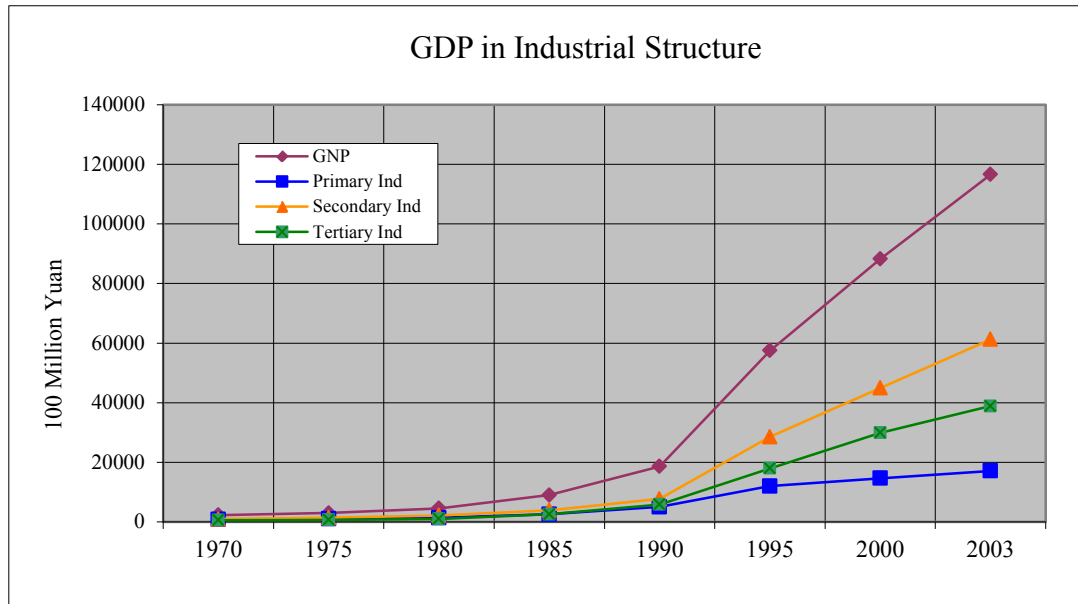


Figure 16 - GNP in Industrial Structure (Yuan) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

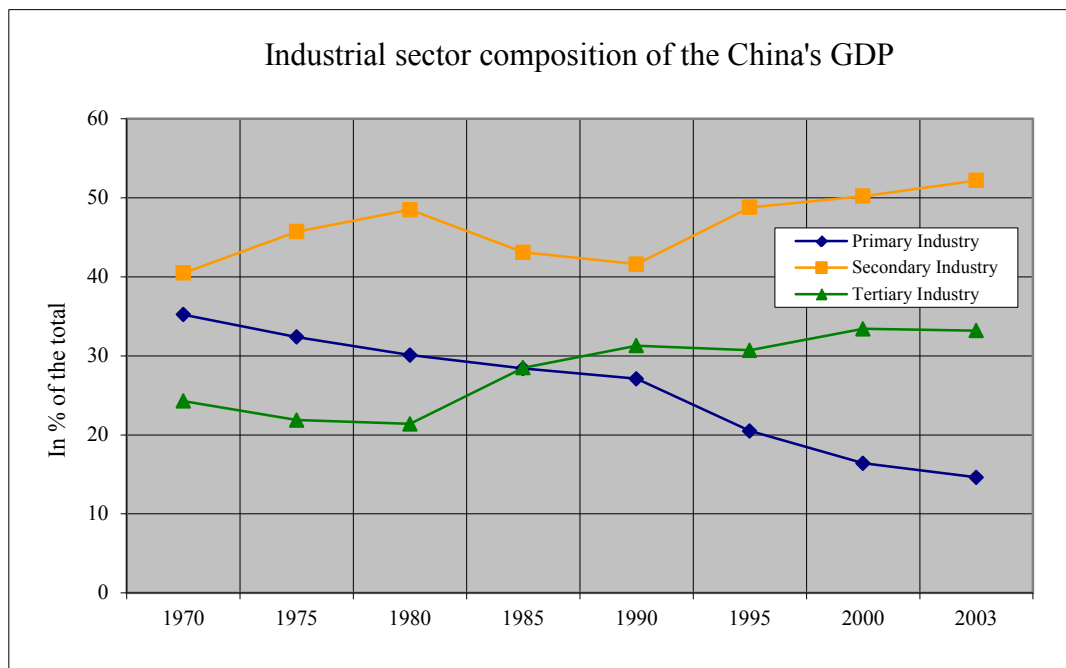


Figure 17 – Industrial sector composition of China's GDP (%) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

They also demonstrate that China's development is not based on a single or a mix of cheap commodities, but rather on developments in the secondary and tertiary sector of the economy, which provide rather good indications for development. This in turn provides an indication of a rather healthier economic development and by extension signifies the success of the reform strategy. A similar picture emerges with regard to the employment situation, as the secondary and tertiary sector increased their share at the expense of the primary sector (Figure 18). An equally positive advancement is observable in the statistics of China's foreign trade structure (Figure 19), as manufacturing goods increasingly began to dominate foreign trade.

It is crucial to note that since the CCP took power in 1949, modernising, especially building of a modern industrial sector, was a fundamental aim. To that end, a strong bias towards the industrial sector, and especially the heavy industrial sector became a hallmark of the decades to come. Equally, the establishment of a command economy aimed to reach this goal with an extensive growth strategy. Whereas the light industrial sector as well as the agricultural sector were not given equal consideration, yet providing adequate food for China's increasing population was also a critical goal. However, to increase the profitability of industrial production, planners set the prices for agricultural commodities and raw materials low, and the prices for manufactured goods high.

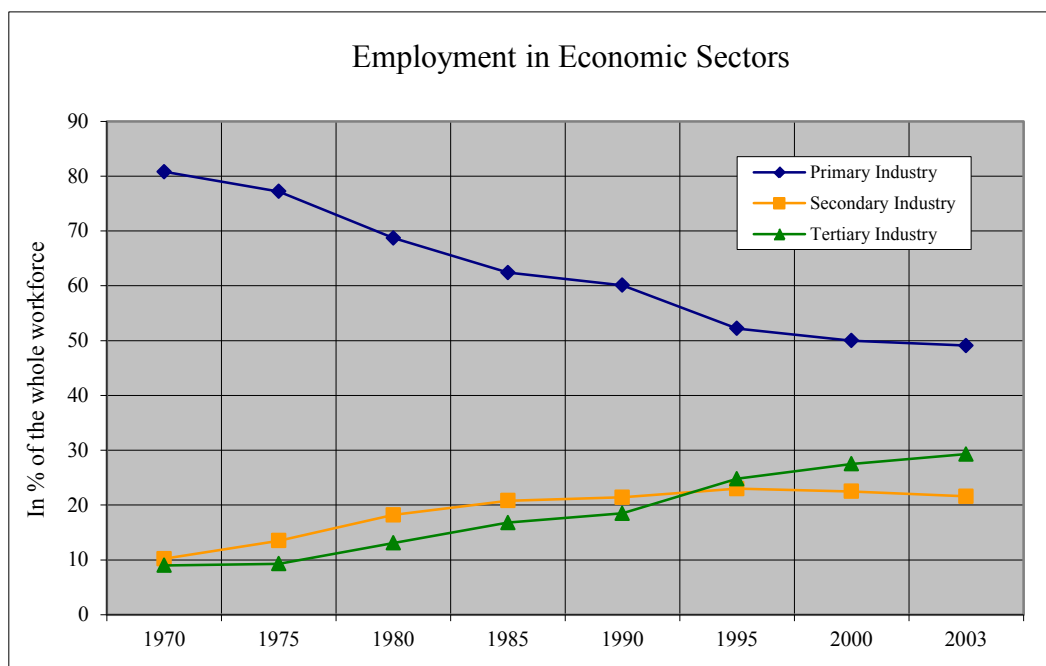


Figure 18 - Employment in Economic Sectors (%) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

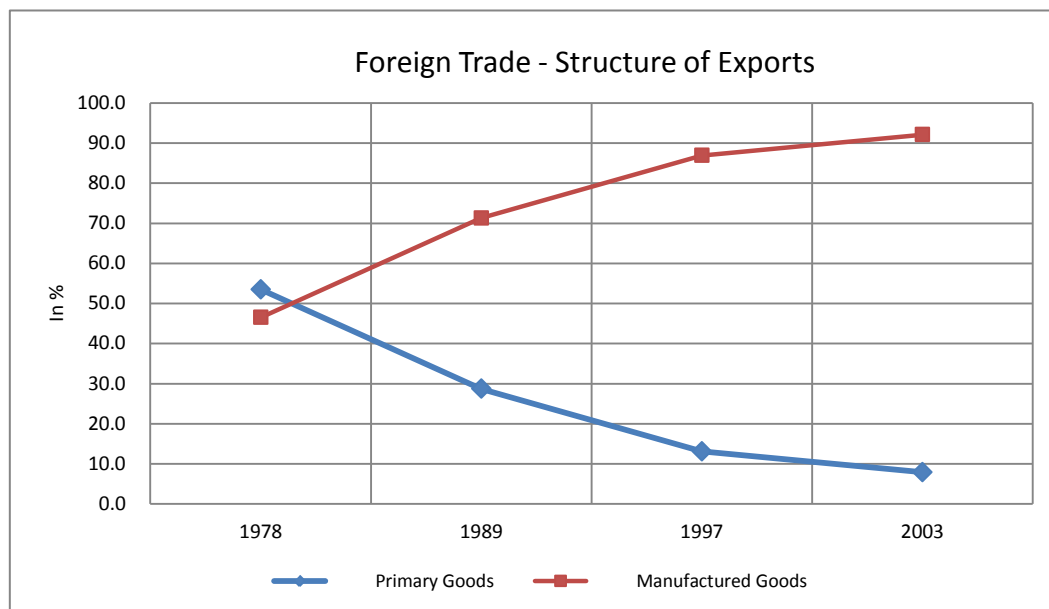


Figure 19 - Chinese Foreign Trade - Structure of Exports (%) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

As the reform process began to change this bias towards heavy industry, unsurprisingly, this sector was less in favour of these developments, as it began to lose its preferential position. It is equally relevant to acknowledge, that the very same individuals and organisations will contest any reform process and the associated changes in the existing distribution of funds and political influence. Hence, the Chinese reformers faced an additional, but inherent challenge of every reform process: how to build a constituency for the reform/opening process.

Deng Xiaoping thought, rightfully, that provincial officials and representatives from the light industry and the agricultural sector would provide a constituency in favour of the reform/opening process. The strategy of manipulating provincial and local interests for advancing the reform/opening project became known as ‘playing the provinces’, where central Party leaders, among them Deng Xiaoping himself, appealed to local interests to get his policy strategies implemented, despite encountering strong resistance from central organisations and core leaders.

One important factor was that during the Maoist era, the provinces were required to remit almost all of the revenue they generated to the centre whereas the centre in return transferred budget allocations to the provinces to cover their expenditures. Yet, this arrangement offered limited incentives for the provinces to generate additional revenues. The reform/opening process aimed to alter this arrangement, and in doing so, would greatly increase the incentives at the provincial level to raise additional revenue income, thereby creating an important constituency for the reform/opening process itself.

Taking into account the strong resistance from various parts of the old regime, it was imperative to the success of the reform/opening project that, as highlighted by Shirk, the reformist group within the leadership opted not to implement a comprehensive reform project at once, but instead decided on a gradual and piecemeal approach in transforming the economy and in abolishing the command economy (1993, p.335). This gradual approach helped to moderate the threat to central economic institutions and the threat of losing political-economic influence when implementing the reform strategy.

Again, the selection of a gradual reform approach highlights the underlining political rationale of various reform measures and strategies, providing another illustration how political reality influences the sequencing of the reform/opening project. The gradual approach selected also added to economic pressure by delaying various reform steps.

Another important feature in this gradual reform strategy was to allow for the expansion of the market while adhering to the plan economy at the same time, despite that this led to the creation of a parallel economy where the plan economy coexisted with an evolving market economy. This strategy became known as the dual-track approach.

The political-economic problems the government faced when implementing a price reform during the 1980s - attempted and postponed at various times and then implemented step-by-step in the late 1980s - provides an excellent example.

Nevertheless, a gradual reform process helped to avoid some of the negative social and economic implications a ‘big bang’ reform approach would introduce.¹⁰

In this way, the gradual approach selected added to political and social stability, albeit it did not eliminate the existing system stress. Yet this strategy not only prolonged the transition period, but, Yang argues, resulted in the continuation of the plan and the persistence of the bargaining relationship between the state, the bureaucracy and the enterprises (2001, p.20), consequently providing a fertile ground for corruption.

5.2. China’s opening to the outside world¹¹

China changed from an almost autarkic state to the second largest host country for Foreign Direct Investment (FDI), which took place during the reform/opening period represents one of the most dramatic changes, and the statistical data in Figure 20 clearly highlights this extensive growth in FDI. Equally impressive is the increase in China’s trade volume with the rest of the world over the same period (Figure 21). Together these developments clearly demonstrate the striking extent of China’s integration into the international economy. It is crucial to note that the decision to open China’s economy to

¹⁰ A ‘big bang’ approach could generate immense negative political and social impacts, advocates of a ‘shock therapy’ approach however, argue that these implications are only short term and the following economic development would compensate for these initial political, economic and social tensions. Yet, as various cases have already shown, this may be a fallacious promise, and ‘big bang’ approaches have the potential of undermining the political and social stability of a country.

¹¹ This section is based on Ploberger, C. (2009) ‘China’s Integration into a Global Economy: A Case of Natural Economic Development or the Deliberate Outcome of Political Decisions to Re-legitimise the Leading Role of the CCP?’. In: Wu, Z. (ed) *Financial Sector Reform and the International Integration of China*, pp.224-242.

the world economy was not forced on the Chinese leadership; instead, international integration was viewed as a crucial element of the reform project (Ploberger, 2009, p.225).

As mentioned previously, China's economic performance lagged far below global standards in many sectors in the late 1970s. Moreover, there existed an equally huge gap between the living standards of China's population and the living standards within advanced states in East Asian. Addressing China's economic underdevelopment and raising the living standard of its population constituted fundamental aspects of the wider reform process. In order to realize these goals, China required foreign investment and with it the transfer of technology and managerial know-how. However, at the time the decisions were made in favour of the reform/opening process, such an extraordinary development as presented by the data in Figure 20 and 21, which could hardly have been expected nor a credible target.

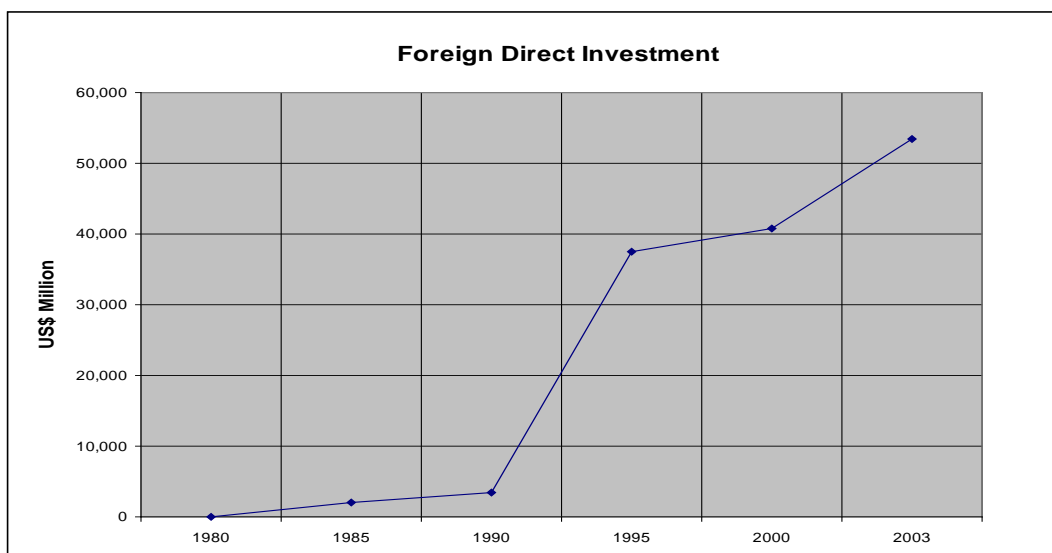


Figure 20– Foreign Direct Investment (US\$) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

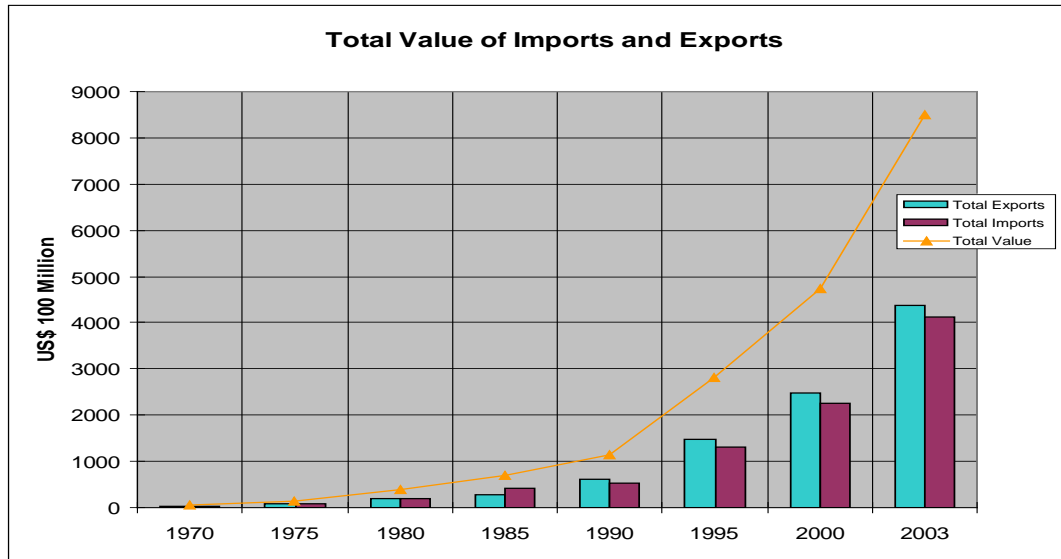


Figure 21 - Total Value of Imports and Exports (US\$) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

However, when taking into consideration the development of China's Trade Balance (Figure 22) it becomes clear that despite its successful drive towards a deeper integration into the global economy, the process was not as straightforward as it may appear in retrospect. However, the data in Figure 23 demonstrates that China's reform leadership succeeded to the extent, that in both categories - export and imports - manufacturing goods dominated. Hence, as argued earlier, this indicates a rather more robust nature of development, as China's economic integration with the global economy is not based solely on cheap commodities from within the primary sector of the economy.

What's more, over time, the Chinese home market became the focus of international economic activities as well. Tao identifies two main categories of FDI in China: one type of investment is based on seeking cheaper production costs for labour intensive



Figure 22 – Chinas Trade Balance (US\$) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

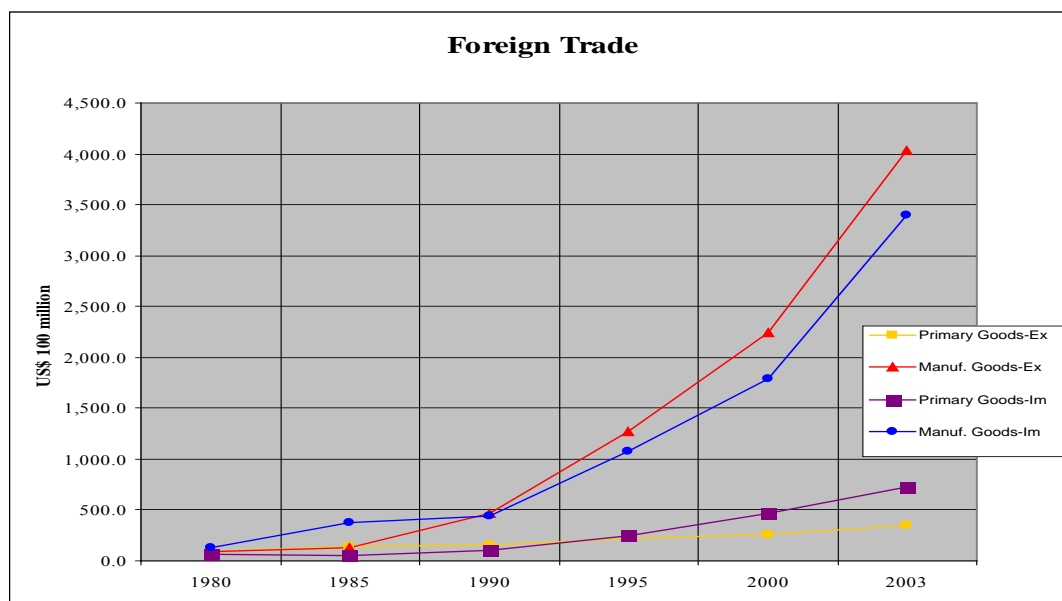


Figure 23 - Chinas Foreign Trade – primary and manufacturing goods (US\$) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

products; the second category of investment is attracted by the huge market potential of China's domestic market (2005, p.135). The second category of investment in particular, put China's leadership in a fairly good position when negotiating and attracting FDI. China's successful integration in the global economy further enhanced the attractiveness of China as a destination for foreign investment, noticeable increased the economic success of the reform/opening strategy.

Additionally, as noted before, the reform/opening process had an essential impact on the distribution and re-distribution of 'who gets what' and various institutions, economic sectors and localities that either profited or lost in this process. Unintended developments accompanied the opening of the Chinese economy to the global economy as for example an increasing income and development gap between coastal and interior provinces as well as between urban and rural areas. Though it was anticipated by the government, that the economic development should spread from the coastal areas to the interior area, yet, this process did not materialise in the way it was predicted. The different economic growth rates at the regional level clearly indicate this trend (see Figures 24).

Quite clearly, FDI inflows demonstrate a specific regional pattern as some provinces are more able to profit from China's increasing integration into the international economy than others, highlighted by the data in Figure 24.¹² The data clearly illustrates the geographical cluster FDI has taken in reform China, with the inland provinces

¹² Shanghai and Beijing are excluded as they are categorized as municipalities.

(Xingjiang, Qinghai, Gansu, Ningxia, Guizhou) receiving less FDI inflows as the coastal provinces (Guangdong, Fujian, Zhejiang, Jiangsu, Shandong).

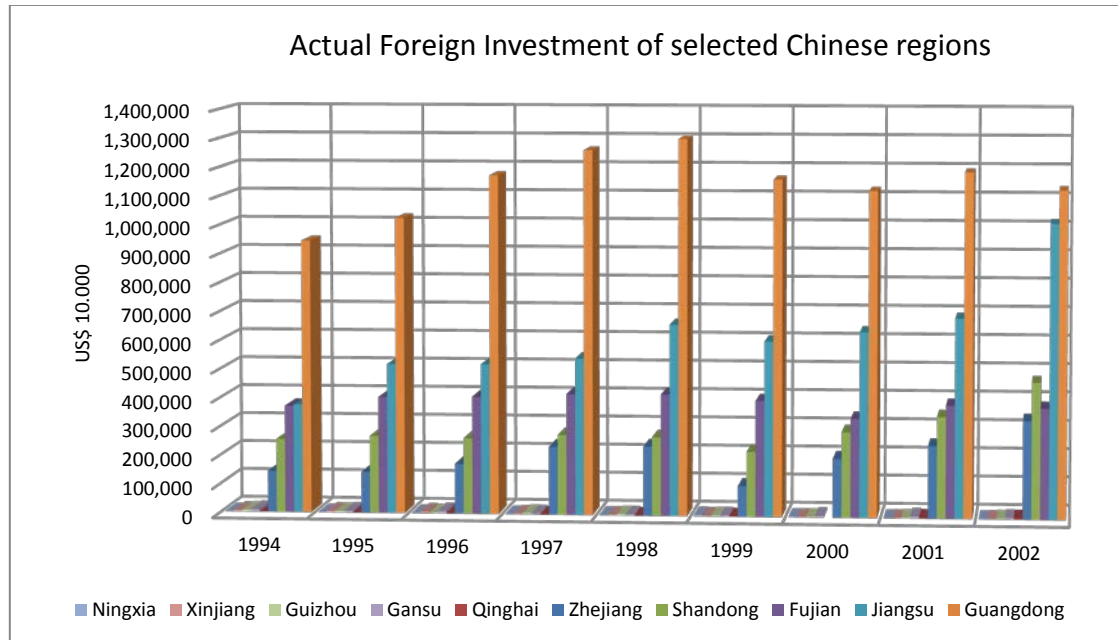


Figure 24 - Actual Foreign Investment of selected Chinese regions (US\$) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

With regard to the various initiatives of the opening process, several important events are of particular significance. One of the steps included the central government's decision to set up four SEZs in 1980, followed by another decision in 1984, which saw the opening of a further fourteen coastal cities to the international economy. 1985 saw yet another extension of this process by introducing a number of 'open coastal economic areas'. An additional expansion of these coastal areas occurred in 1988 and was part of the 'coastal development strategy' put forward by Zhao Ziyang.

Regarding the character of special economic zones, Gao emphasises that a special economic zone differs in function from an overseas export processing zone as it not

only aims to attract FDI for processing goods for export, but also an area with a special economic policy and experimental management system (1996, p.39). Thus Chinese SEZs did not only offer a favourable environment for FDI and the anticipated technology and management know how transfer and for generating export revenues, but equally important, they also provided a practical exercise of 'trial and error' for future reform steps.

One example of the success and positive impact this strategy had was that within a few years a significant movement of Hong Kong's manufacturing industry into South China took place. Yet, the 1990s brought further expansion of FDI inflow into the interior of China, away from the coastal areas. This period also saw the development of Shanghai's Pudong Development Zone, which aimed not only to facilitate Shanghai's own development potential and its traditional closeness to the outside world, but also to head the development along the lower Yangtze River. These later steps noticeably characterised a geographical expansion of the initial experimental character of the four SEZs.

It is important to note the profoundly political nature of these decisions, as the political-ideological conflict between various groups of reformers and non-reformers as well as within the reform camp, over the extent and speed of China's integration into the global capitalist economy, had a fundamental impact on the process, pace and direction of opening China's economy to the outside world.¹³ Without the success of the SEZs and

¹³ Thoburn and Howell identifying three major groups within the reform camp: The radical reformers, who advocated a rapid opening-up of China to the international economy; The moderate reformers such as Chen Yun, who sought a more moderate pace; and the conservative reformers, who were sceptical about opening up to an grand scale so quickly and were

the coastal developmental strategy, the entire reform/opening process would not only have encountered additional resistance from the conservative camp but may actually have dissipated.

One of the most crucial steps in the process of redefining and integrating China's economic relationship with the global economy can be identified in the leadership's decision to apply for membership to the World Trade Organisation (WTO). Figure 20 and Figure 21 clearly demonstrate the positive effect this had on China's foreign trade environment. Though the improvement of China's foreign trade environment provided many domestic enterprises with opportunities in the overseas market, but it also forced them to upgrade the quality of their products, to modernise industrial production processes and business management in general, in order to meet the competitive demands of the international market.

However, we should recognise that an economic advancement from internationalising and the opening up of a former rather closed economy does not arise automatically. Indeed, successful opening of an almost closed economy requires domestic preparation and capacity building as well as international interest in a particular location or of specific advantages gained. Despite China's huge success in attracting FDI, Segal remind us, that China, like other developing countries, has been to a lesser extent successful in engaging foreign companies to develop their most advanced technology for the Chinese market. The primary interest of foreign companies is selling products to the Chinese market, and not technology transfer (2005, p.215).

particularly concerned about ideological aspects such as 'spiritual pollution' (Thoburn and Howell, 1999, p.171)

The limitation of China's integration strategy, especially considering which locations were able to profit from the opening policy, became further apparent by the failure of the government to re-direct international investment to interior and western provinces. Despite announcing a 'Go West strategy' in mid-1999, the so called 'Western China Great Developmental Strategy', the problems potential investors face - remoteness, underdeveloped infrastructure, weak industrial basis, low educated workforce - acted against a significant increase of FDI in these regions.

However, as the integration process deepened, not least because of China's WTO membership, the pressure on the Chinese state to reform and to modernise increased accordingly. China's international economic integration also facilitated market economy reforms in China. Yet, China's WTO membership also increased the pressure on various sectors; one was the rural economy which although it profited from the early reforms steps, increasingly lagged behind in its development. This had several implications for China's rural areas and for the CPC's dominance of rural China and with regard to the internal regime structures.

5.3 Political and ideological challenges in the reforming period changing the public policy framework when identifying a new course of development

With the reform process progressing and extending the political and ideological challenges increased accordingly, as did the pressure of reorganising the state administration. Yet, any decision on a future course of development could only be

formulated in the context of the existing structural framework. Hence, change within the economic sector required a change of the political-economic framework and with it reforms of the public policy framework were undertaken. In the various political-ideological and public policy related statements made in various National Party Congresses since the reform process begun, the very re-formulation of the ideological framework, provided evidence of the challenging task of the reform leadership. It also provides an illustration of strategic actors manoeuvring within the context of a particular structural environment, and still being able to change various aspects of this structural environment.

One fundamental challenge was how to link new policy strategies and new theoretical innovations with the existing Maoist structural environment and still to be perceived as acting in accordance with this environment and still introducing public policy changes. As such, the question of how to assess Mao's role during the Cultural Revolution was a critical topic from the very onset of the reform process and some indications of this challenge were already mentioned in an earlier section. It not only occupied Mao's omnipotent position within Chinese Communism, but, Marxism-Leninism and Mao Zedong Thought were the guiding ideology for the Chinese nation since 1949.

The first subsection will examine the challenge involved in re-evaluating Mao's role during the Cultural Revolution and which strategies were employed to link reform strategies to earlier Maoist policies, whereas the second subsection will focus on the increasing political-ideological challenge the reform/opening process represented for the regime. The third subsection will assess the shift from a socialist economy towards a

more market-oriented economy and thus introducing a significant shift of the regime's public policy framework. Paralleled to these adaptations, the new strategic approaches had to be implemented in the context of the existing political-economic framework of a Maoist-Communist state.

5.3.1 Re-evaluating Mao's role in the context of the reform process

As discussed before, it was at the Third Plenary Session of 11th Central Committee that crucial steps were made to set China on a new course of development. The meeting established the guideline of 'seeking truth from facts' and sought to shift the focus of the party's work towards accelerating development to improve the livelihood of China's population, by putting greater emphasis on socialist modernisation.

Yet, the Party leadership faced a dilemma as to how to evaluate Mao's personal role during the Cultural Revolution; if Mao was shown to be a tyrannical emperor, the prestige of the revolution would be threatened and consequently could undermine the authority on which the CPC's legitimacy rested. Hence the credibility of the Party itself was also on trial.

One way of responding to this challenge was to distinguish between Mao's actual conduct of politics and MZT, arguing that while Mao made some significant mistakes, as every leader does, MZT is free of such radical mistakes, and thus represented the ideological basis for further developments. In a speech in December 1978, Deng emphasised that: "Our Party's unity is based on Marxism-Leninism and Mao Zedong

Thought’ and ‘Without Mao Zedong Thought, the Communist Party of China would not exist today” (December 1978). Deng became even more outspoken about this issue in a speech made in 1979, by stating that:

When it comes to individual theses, neither MarxLenin nor Comrade Mao could be immune from misjudgements of one sort or another. But these do not belong to the scientific system formed by the basic tenets of Marxism-Leninism and Mao Zedong Thought (Deng Xiaoping, March 1979).

Adding that,

The cause and the thought of Comrade Mao Zedong are not his alone: they are likewise those of his comrades-in-arms, the Party and the people. His thought is the crystallization of the experience of the Chinese people's revolutionary struggle over half a century (Deng Xiaoping, March 1979).

By emphasising that MZT was a scientific system, which in connection with the principles of Marxism-Leninism provided guidance for the socialist modernisation, the communique provided a first indication of what became a more stated position during the reform period, that Mao as a leader made some mistakes, but that MZT is free of such mistakes. The critical relevance of MZT was underlined by the fact that Marxism-Leninism and MZT constituted the fundamental consent on which the Chinese regime rested since 1949.

Hence, the impact of the structural environment was still strongly felt, and the power to define the meaning of Marxism-Leninism and how to apply it to the contemporary situation in China was a critical instrument not only for Mao himself but for the post-Mao leadership as well. Another strategy of addressing Mao's role during the Cultural Revolution was to distinguish between the Mao of the 1950s and the Mao of the 1960s, since the policies of the first period were less radical. White argues that one can distinguish between two forms of Maoism. One is described as developmental Maoism, going back to the early and mid-1950s positions Mao held, the other as radical Maoism, which forms the ideological basis for the Cultural Revolution (White, 1993, pp.22-3).

The Communiqué of the Third Plenary Session emphasised the importance of past Maoist policies related to economic constructions, as mentioned in Mao Zedong's report titled 'On the Ten major Relationships' and the ongoing relevance of this report as a guidance for the actual policy challenges faced (Communiqué, 2009). Again, Deng Xiaoping continued to address this issue by stressing both mistakes made by Mao and the ongoing relevance of Mao Zedong policy:

Generally speaking, comrade Mao Zedong's leadership was correct before 1957, but he made more and more mistakes after the anti-Rightist struggle of that year (Deng Xiaoping, April 1980).

Hence, distinguishing between radical and more measured Maoist policy allowed the Party to redefine Mao's own role without abandoning the existing consensus which otherwise could undermine the Party's political legitimacy.

Another important step in dealing with the radical politics under Mao was observed in the endorsement of the official 'Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China' in 1981. Regarding the role of Mao it was emphasised that:

Comrade Mao Zedong was a great Marxist and a great proletarian revolutionary, strategist and theorist. It is true that he made gross mistakes during the 'Cultural Revolution', but if we judge his activities as a whole, his contributions to the Chinese revolution far outweigh his mistakes (Comrade Mao Zedong's Historical Role and Mao Zedong Thought, 1981).

Hence, as mentioned above, distinguishing between the Mao of the 1950s and the Mao of the 1960s opened a way for the reform leadership in integrating a reform strategy with past Maoist policies without destroying the very foundation of the Party's political legitimacy. For these reasons, ideology continued to have a profound impact on the course and speed of the reform process and thus influenced how the reform project unfolded. Moreover, the existing consensus clearly defined the nature and parameters of the reforms strategy, and Deng explicitly emphasised that to accomplish modernisation China must uphold the four Cardinal Principles: abide by the socialist road; uphold the dictatorship of the proletariat; uphold the leadership of the Communist Party, and uphold Marxist-Leninism and MZT (Deng Xiaoping, March 1979).

However, over the course of the reform/opening process the CCP did change this political-ideological framework and with it important aspects of the underlining

consensus of the regime, as alternative policy mechanisms and strategies were now interpreted as legitimate within the existing political-ideological framework. This in turn also introduced partial change to the existing consensus.

With regard to the underlining goals of the regime, to regain political legitimacy by re-focusing on economic development China had to develop itself into a strong and respected country once again; Deng emphasised this in an interview in November 1979:

The aim of our revolution is to liberate and expand the productive forces. Without expanding the productive forces, making our country prosperous and powerful, and improving the living standards of the people, our revolution is just empty talk (Deng Xiaoping, November 1979).

Adding,

The Gang of Four said it was better to be poor under socialism than to be rich under capitalism. This is absurd (Deng Xiaoping, November 1979).



Yet, the ideological challenges did not diminish; neither did the fundamental threat to the Party's political survival. One attempt to solve this paradox, was a commitment of the post-Mao leadership to modernisation with the 'Four Fundamental Principles' favoured by Deng Xiaoping, as described above. With regard to structure-agency

dialectic one can assess that the structural environment conditioned agency behaviour to a great extent, but it did not prevent strategic actors redefining parts of the structural environment they faced. As such it provides a good example of the dynamic interchange of structure and agency and the relevance this has for regime stability and regime dynamic.

In formulating an alternative reform strategy, as pointed out by Womack, the Party redefined its leadership role, arguing that only the Party had the necessary scientific knowledge to modernise China (1990, p.19). Yet, formulating an alternative reform strategy also required managing critical ideological issues from the beginning, a challenge, which continues today.

5.3.2 Ideology, economic development and re-defining the socialist economy

The pressure of transition, from a socialist planned economy to a market based economy and consequently the public policy of the regime, increased as China focused on the modernization of its production force and China's economy became further integrated in the global economy.

Although integrating the planned economy with market economic features was framed within a discourse of modernizing and liberalizing the productive forces, even so, it was equally necessary to defend such an integrated framework in ideological terms as well. The Third Plenum also confirmed that class struggle no longer represented the major

contraction; indeed, facilitating economic modernisation became the foremost task of the Party.

Hence, the Third Plenum of the Eleventh Central Committee in 1978 signalled the beginning of the reform/opening period, in endorsing Deng's dictum on 'practise as the sole criterion of truth'. Deng emphasised this in a speech in 1978 that:

The principle of seeking truth from facts is the point of departure, the fundamental point, in MZT. (...) If we fail to seek truth from facts, all our meetings will be nothing but empty talk, and we will never be able to solve any problems (Deng Xiaoping, June 1978).

Yet, the implication of this debate went far beyond these points, essentially denoting a continuation of an earlier deliberation at the 8th National Party Congress in 1956. By emphasizing that the reform/opening process was a continuation of the socialist course and demonstrating an awareness of potential critics from the left in taking the capitalist road, Deng pointed out that:

It is wrong to maintain that a market economy exists only in a capitalist society (...) the market economy was in its embryonic stages as early as feudal society. We can surely develop it under socialism (Deng Xiaoping, November 1979).

He strongly advocated such an amalgamation and remarked that:

While maintaining a planned economy as the mainstay of our economic system, we are also introducing a market economy ... Taking the country as a whole, this is not a problem. The state-owned sector and collectively owned sector is still the mainstay of our economy (Deng Xiaoping, November 1979).

Deng also affirmed at a speech in 1979, that ‘Marxist ideological and theoretical work cannot be divorced from current politics’, and stressed that

Scientific socialism develops in the course of actual struggle and so does Marxism-Leninism and Mao Zedong Thought. We will not (...) backtrack from scientific socialism (...) nor will we allow Marxism to remain arrested at the level of the particular theses arrived at as long as a century ago. This is why we have often repeated that it is necessary to emancipate our minds, that is, to study new situations and solve new problems by applying the basic tenets of Marxism-Leninism and Mao Zedong Thought (Deng Xiaoping, March 1979).

As these comments illustrate, it was neither a straightforward issue of re-interpreting the political-ideological framework nor were these alternative concepts accepted immediately. This debate did not abate over the course of the reform process either. Indeed, Deng Xiaoping needed to maintain regularly the ideological correctness when integrating various market mechanisms into China’s socialist economic system.

Although there had been attempts in redefining the ideological basis by providing a justification for the various reform steps undertaken, the ideological challenges the reform leadership faced persisted and increased as the reform/opening process advanced. The core argument Deng presented in the late 1970s and 1980s, as indicated in the previous section, was the importance of building ‘socialism with Chinese characteristics’.

Speaking of building ‘socialism with Chinese characteristics’ could be linked to what, as indicated by Chan, Marx himself argued that there cannot be a single - step by step - trajectory towards socialism, instead, the actual process towards socialism will be strongly influenced by the society, economy, politics and culture of a specific country (2003, p. 133).

The critical theoretical debates, which had commenced in the late 1970s and early 1980s, signify the beginning of a transformation process as ideological dogma was replaced with more pragmatic considerations, especially regarding economic development. Despite that, it was vital that the reform leadership and Deng Xiaoping himself related the various reform measures and strategies to political-ideological positions Mao Zedong held in earlier times or to approaches favoured by other leaders before the onset of the Cultural Revolution as this provided additional ideological legitimacy to the reform steps undertaken.

In this regard, the two theoretical debates of the early 1980s, which focused on the ‘practice criterion’ and on the ‘criterion of productive forces’, were crucial steps in re-

defining China's guiding ideology in light of the changes in economic and public policy. Yet this only represented the beginning of a process which still persists until today and continues to shape the regime's public policy profile. The various steps undertaken in responding to this political-ideological challenge in the period up to the 16th Party Congress in 2002 will be the focus of the following sub sections.

5.3.2.1 The Twelfth Party Congress

The significance of the ideological debate was highlighted at the 12th Party Congress in 1982, which represented a crucial event for the overall reform/opening project. Not only was it the first Party Congress after the reform/opening process began, it also addressed the outcome of the Cultural Revolution and equally importantly, defined the principles, strategies and policies, which would underline China's socialist modernisation project.

In his opening address to the 12th National Party Congress, Deng Xiaoping put forward the idea of building socialism with Chinese characteristics and described the challenges ahead:

In carrying out our modernization programme, we must proceed from Chinese realities. Both in revolution and in construction we should also learn from foreign countries and draw on their experience, but mechanical application of foreign experience and copying of foreign models will get us nowhere. We have had many lessons in this respect. We must integrate the universal truth of Marxism with the concrete realities of China, blaze a

path of our own and build a socialism with Chinese characteristics that is the basic conclusion we have reached after reviewing our long history (Deng Xiaoping, September 1982).

Deng maintained at the Party Congress that the Party was following the correct line by implementing the reform/opening project, which was articulated by Liu Shaoqi at the Eighth Party Congress in 1956. Yet, these approaches, which favoured the development of the productive forces by integrating some market economic aspects into the socialist economy, were not implemented for ideological reasons. Chen notes that it was Mao's suspicion that such a strategy would lead to revisionism, which not only prevented its implementation, but also informed to some extent Mao's later decision to launch the Cultural Revolution (1995, p.55).

However, by linking the various steps undertaken so far with Li Shaoqi's approach, Deng established another theoretical justification for the reform/opening project. Thereby responding to the crucial issue in the ongoing ideological debate; that is, to what extent the reform/opening project follows a correct Marxist-Leninist line. Another effort for legitimating the reform/opening process can be identified in a report titled 'Decision of the Central Committee of the Communist Party of China on reform of the economic structure' presented in October 1984, which highlighted that the new conditions for socialism in post-Mao China also required a different approach in dealing with the contemporary contradictions.

Even so, the pressure on adapting the existing consensus the regime rested on continued and needed to be addressed again at the Thirteenth Party Congress as a new mandate, in ideological terms, for continuing and deepening the reform/opening project was required. In addition, the continuation and deepening of the reform process also increased the pressure for political administrative reforms, as a professional orientated administration became imperative for China to continue its reform/opening course. Adding to the pressure of establishing a more independent and professional bureaucracy as well as state institutions, further facilitated the long-term process of weakening the regime's grip on the economy and on state institutions. In the terms employed in this research, the existing institutional fabric came under increasing systemic stress resulting in what was described in the theoretical part as an 'intrinsic dilemma'.

5.3.2.2 The Thirteenth Party Congress

At the 13th Party Congress in October 1987, Zhao Ziyang emphasised, that Marxism is a science that continued to evolve in practice and as the world was undergoing immense changes, a requirement existed for developing Marxism further, in widening its vision; this consequently involved the development of new theoretical concepts (China in Focus, 1987, p.28). 'Socialism with Chinese Characteristics' was identified as an appropriate strategy to interpret this new meaning of socialism:

To build socialism with Chinese characteristics is to integrate the universal truth of Marxism with concrete practice in China (China in Focus, 1987, p.19).

This description is similar to that advocated by Deng Xiaoping, as mentioned before. However, the principle answer, the reform leadership expounded in addressing the ideological challenge, was to introduce the concept of the ‘primary stage of socialism’, by emphasising that the ‘primary stage of socialism’ represents a specific historical and transitional stage.

In his report, Zhao Ziyang argues that there are two specific aspects related to the primary stage thesis: one is that China, though already a socialist country, was still in the primary stage of socialism, because of the backwardness of its productive forces, therefore, China would be unable to follow the socialist road without firstly developing capitalism (China in Focus, 1987, pp.20-2). He emphasised, that there existed a requirement to resolve the principal contradiction of present day China, identified as a gap between growing material and cultural needs of the people and backward production. Consequently China had to expand the commodity economy, raise labour productivity and in more general terms to modernise its industry and agriculture (China in Focus, 1987, p.25). This echoes a Marxist materialistic conception of history, accepting that history develops in a linear fashion towards socialism, thereby providing additional ideological justification for the reform process.

Zhao Ziyang also presented an underlying and essential argument for the specific nature of China’s development strategy:

Building socialism in a big, backward Eastern country like China is something new in the history of the development of Marxism. We are not

in the situation envisaged by the founders of Marxism, in which socialism is built on the basis of highly developed capitalism (...) we cannot blindly follow what the books say, nor can we mechanically imitate the examples of other countries. Rather, proceeding from China's actual conditions and integrating the basic principles of Marxism with those conditions, we must find a way to build socialism with Chinese characteristics through practice (1987, p.12).

It can be argued that this position was consistent with the Marxist theory that it evoked, moreover, it provided the reform leadership with a theoretical concept, which allowed it to integrate a diverse range of market approaches with China's planned economy. The Thirteenth Party Congress also endorsed the argumentation that a socialist planned commodity economy, which integrates planning with the market, should be initiated. It was also emphasised, that under the condition of socialism, planning and the market are not mutually exclusive and that they can be integrated. Moreover, the relationship between market supply and demand represents the key to the success of the reforms (China in Focus, 1987, pp.46-7). This indeed introduced a crucial change in the theoretical-political debate within the CPC and the guiding ideological framework and thus introduced changes in the existing consent the regime rest on.

These decisions were in accordance with a statement made by Deng Xiaoping in 1985, who pointed out that a fundamental problem lies with how to develop the productive forces more effectively in emphasising, that

[w]e used to have a planned economy, but our experience over the years has proved that having a totally planned economy hampers the development of the productive forces to a certain extent ... [i]f we combine a planned economy with a market economy, we shall be in a better position to liberate the productive forces and speed up economic growth (Deng Xiaoping, October 1985).

Mah notes, that in accepting both plan and market, the reform leadership aimed to establish a hybrid system of socialism and the market economy with the aim to improve its efficiency (1990, p. 355).

Another strategy of improving the efficiency of the state was to reduce the Party dominance over the institutional framework of the state and the government; this was also high on Zhao Ziyang's political agenda. In his political report to the Thirteenth Party Congress he stressed that:

The deepening of the ongoing reform of the economic structure makes reform of the political structure increasingly urgent ... [w]ithout reform of the political structure, reform of the economic structure cannot succeed in the end' and 'the key to reforming the political structure is the separation of party and government. This means the separation of the functions of the party and the government (1987, p. 42, 44).

Zhao Ziyang was especially critical of the usurpation of the government role by the Party, emphasising that the Party and state organs differ in their functions, method of work and in their organisational forms. Consequently, one has to distinguish between the function of the Party and the government. However, he insisted that the Party had to exercise political leadership by formulating political principles and the major policy directions (1987, pp.44-5).

Again, as with other reform measures, separating party and government should not only facilitate the fundamental aim of the reform/opening process, but also strengthen the capacity of the regime by relinquishing various aspects of overconcentration of power and bureaucratism. Indeed, separating the party and government did not aim at undermining the existing regime, but instead it sought to enhance the regime's capacity.

Critically, the Thirteenth Party Congress also confirmed that the reform policy conducted following the Third Plenary Session of the Eleventh Party Central Committee was an appropriate Marxist policy (China in Focus, 1997, p.13).

Womack also highlights the importance of the Thirteenth Party Congress for the reform/opening project as it not only reaffirmed the official commitment to the project, but also re-established the political hegemony of the Party (1990, p.11).

What this evaluation highlights, is that ideology still signified a crucial feature during the reform/opening process and that Marxism-Leninism and MZT continued to provide

the fundamental basis for legitimating the rule of the Party and its dominant position in Chinese politics.

Yet the political-ideological challenge persisted as the two following Party Congresses clearly indicated and with it the pressure to amend the regime's existing consensus. In sum, the reform oriented leadership had to continue its effort in re-defining the official ideology, before it could be utilized as an effective tool for legitimating the reform/opening process. Although the leadership eventually succeeded, these changes in the official ideology were not secured until the fourteenth Party Congress.

5.3.2.3 The Fourteenth Party Congress

In general, the Fourteenth Party Congress (1992) reaffirmed the relevance of Deng Xiaoping Theory, acknowledged the success of the reform/opening process to that point and emphasised that the establishment of a socialist market system represented the major task of the reform drive in the 1990s.

The confirmation to continue the reform/opening process and indeed its acceleration at the Fourteenth Party Congress was a crucial issue as this was the first Party Congress after the 1989 demonstrations, the downfall of Zhao Ziyang and the collapse of Communist rule in Eastern Europe. The period up to the Congress also witnessed not only the disintegration of the Soviet Union, but also of the Soviet Communist Party itself. As it appeared at the time, there was an unstoppable momentum towards the

demise of communist rule and of Communist Parties. For many the question was would developments in China follow that in Eastern Europe?

Even though such a process of fundamental change did not occur in China, nevertheless the impact of the end of communist rule in Eastern Europe and the disintegration of the Soviet Union clearly resonated within the China's Communist Party and the Chinese leadership. These developments represented a fundamental political-ideological challenge to the leadership in Beijing, and taken together with the fallout from the oppression of the Tiananmen protest threatened to undermine the political legitimacy of the CPC.

Nevertheless, these political-ideological challenges aside, the end of the Cold War changed significantly the international environment as it facilitated the continuation of the reform process through economic integration and consequently stimulated and sustained a strong economic growth dynamic. This positive impact on economic growth is also identifiable in the economic data presented in the various sections.

The ability of generating economic growth and prosperity became an ever-increasing feature of the CPC's legitimacy to rule. Deng Xiaoping himself acknowledged this in the spring of 1992 when undertaking the renowned tour of southern China:

Anyone who attempted to change the line, principles and policies adopted since the Third Plenary Session of the Eleventh Central Committee would not be countenanced by the people; he would be toppled ... [h]ad it not

been for the achievements of the reform and the opening policy, we could not have weathered June 4th (Deng Xiaoping, January-February 1992).

An important feature was correctly anticipated by Deng and other reform leaders, that the mixed economy could enhance the productive forces. This in turn gave the market an integral role in the modernisation project. The official line adopted at the 14th Party Congress echoed Deng's own position who argued that there is no fundamental contradiction between socialism and a market economy:

The problem is how to develop the productive forces more effectively? In combining a planned economy with a market economy, we shall be in a better position to liberate the productive forces and speed up economic growth. ... [d]oes this run counter to the principles of socialism? No, because in the course of reform we shall make sure of two things: one is that the public sector of the economy is always predominant; the other is that in developing the economy we seek common prosperity, always trying to avoid polarization (Deng Xiaoping, October 1985).

In December 1990 Deng again spoke in favour of integrating market economic features into the socialist economy yet strongly stressing the differences between China's socialist economy and a capitalist economy, in pointing out that:

The greatest superiority of socialism is that it enables all the people to prosper, and common prosperity is the essence of socialism. If polarization occurs, things would be different (Deng Xiaoping, December 1990)

This reminds us that the issue, whether or not a shift towards a market economy would induce capitalism was a contentious and persisting fracture. Yet, a fundamental aspect, one which should not be ignored, underlining the acceptance of the reform/opening project, was that the strategy was successful in economic terms. Indeed the economic successes created a sustained momentum of economic growth and prosperity, despite initiating a tendency that resulted in an increasing gap in income and development between various provinces and between urban and rural areas. The economic data presented in the previous chapter indicate both the success as well as the fragmentation of China's economy since the reform/opening process began. After all, economic fragmentation raises the spectre of polarisation, a development which should be averted according to Deng.

However, the underlining fragility of this economic growth strategy surfaced, when the anticipated economic gains did not materialise or at times when the economy faced difficulties like surging inflation. Such situations occurred at various points during the 1980s and 1990s. While such an instability in economic performance is almost an inherent part of economic development in general, and of a reform project in particular, these cycles of economic performance were nevertheless instrumentalised by the critics of the reform/opening project to challenge the course and direction of the process. Therefore, not surprisingly, at times of economic retrenchment, the theoretical conflict

over the political-ideological correctness of the various reform/opening strategies repeatedly surfaced. Another critical development was that the division within the reform camp became more accentuated over time.

As pointed out by Fewsmith, since the launch of the reforms in 1977-78, Deng Xiaoping and Chen Yun dominated the central political leadership. Although being closely allied at the beginning of the reform period, their relationship steadily deteriorated, as they held divergent opinions over the appropriate course of the reforms.

Chen Yun's approach to reform was to work within the basic framework of the planned economy thereby maintaining the leading position of the state-planned sector. It became known as the 'bird-cage' system in which economic activities (the bird) would be allowed more freedom to respond to economic signals, but only within the planned economy (the cage). Thus, the planned economy would still constitute the fundamental principal. Chen Yun was also very concerned about possible negative consequences of integrating the Chinese economy with the international economy (i. e. dependence on the outside world), whereas Deng Xiaoping favoured a rather more comprehensive reform of the socialist economic model (i.e. the comprehensive marketization of the economy). He also argued, in opposition to Chen Yun, for a full integration of China's economy with the global economy, as long as it would facilitate domestic development. These conflicting views, over the course and extent of the reform/opening project, became more accentuated over time and thus represented an example of the prevailing influence of entrenched interests during non-revolutionary reform processes.

Yet, quite remarkably, Chen Yun had already spoken in favour of integrating market incentives with the socialist planned economy at the time of the Eighth Party Congress in September 1956, when outlining his concept of a socialist economy:

In the production and management of industry and commerce, the mainstay will be either state or collective management, to be supplemented by a certain minor proportion of individual management. As regards planning, the bulk of the industrial and agricultural output of the country will be produced according to plan; but, at the same time, a certain amount of production will be carried on freely, with the changing conditions of the market as its guide and within the scope prescribed by the state plan ... This kind of market under socialist economy is in no way a capitalist free market, but a unified socialist market. In this unified socialist market, the state market is the mainstay, and attached to it is a free market of certain proportions under the guidance of the state (1956, pp. 175-6).

As for the Fourteenth Party Congress, the concept of 'socialist market economy' became firmly established and replaced the previous term 'planned socialist commodity economy' which was presented at the Third Session of the Twelfth Central Committee in October 1984. One can contend that this decision not only assisted to legitimise further reform steps, but in adhering to Deng Xiaoping's strategy it also gave additional legitimacy to the new leadership, the first which did not belong to the founding generation of Communist China.

The Tiananmen protests clearly signalled the inherent dilemma the Chinese regime faced when implementing a gradual reform strategy; a reform strategy, which by its very nature, did not aim to fundamentally alter the structure of the regime. Moreover, in the aftermath of the Tiananmen protests, the proposals made by Zhang Zhiyang were not implemented, as a conservative counter movement overtook the reform/opening project, especially in the political field.

Nonetheless, despite the conservative backlash in the aftermath of the Tiananmen crackdown, Jiang Zemin, continued to emphasise, in his speech at the Fourteenth Party Congress, the need for a further transformation of government functions, especially the separation of government and enterprises, for the successful development of a market economy (Jiang Zemin, 1992). He repeated this call for an administrative reform at the Fifteenth National Peoples' Congress in early 1997, as the progress made in rationalising government activities were rather limited (Jiang Zemin, 1997).

What's more, as mentioned earlier, there is less space for adaptation within a non-democratic setting as the space between an established regime and the state is very narrow as in such situations a regime attempts to constitute itself with the state. Thus any challenges to a regime will then be interpreted as a challenge not only to the regime but to the state as well.

5.3.2.4 The Fifteenth Party Congress

The Fifteenth Party Congress endorsed the strategy of the acceleration of building

socialism with Chinese characteristics by promoting a fundamental shift in the national economy, guaranteeing further economic growth, and fostering the wider goal of economic modernisation.

Addressing the role of the market in China's modernisation strategy, Jiang Zemin (1997) stressed in his report, that 'building a socialist economy with Chinese characteristics means developing a market economy under socialism' adding that 'we should uphold and improve the socialist market economy so that the market will play a basic role in the allocation of resources under state macro-control'. He also outlined more specific goals when stating:

We should accelerate the process of building a complete market system in the national economy ... [w]e shall continue to develop all kinds of markets, with emphasis on markets for capital, labour, technology and other production factors and the mechanism for pricing these factors (Jiang Zemin, 1997, p26).

Jiang Zemin also emphasized that:

The dominant position of public ownership should manifest itself mainly as follows: Public assets dominate in the total assets in society; the state-owned sector controls the life-blood of the national economy and plays a leading role in economic development (Jiang Zemin, online 1997)

Jiang Zemin (1997) also supported Deng Xiaoping's earlier statement, that the fundamental task of socialism is to develop the productive forces and the first priority should be given to this task. He also reiterated the importance of 'learning from facts', in observing that no socialist country ever had attempted such a modernisation process.

The issue of the 'primary stage of socialism' also figured prominently in Jiang Zemin's report, with the assertion that 'the primary stage of socialism' represented a historical stage which cannot be avoided and he emphasised that China should focus on industrialization and the socialist modernization of the economy (Jiang Zemin, online version, 1997). He also re-affirmed that the principle contradiction in society continued to be that between the growing material and cultural needs of the people and the backwardness of production, and that this principal contradiction would remain throughout the primary stage of socialism (Jiang Zemin, online version, 1997). Linking the reform process with the modernisation process and with the concept of 'the primary stage of socialism' provided the leadership with a powerful ideological justification for continuing the reform/opening process.

Another step in resolving the pending ideological dilemma, at least partially, was Jiang Zemin's success in elevating Deng Xiaoping Theory to one of the guiding principles for the CPC. In his report to the Fifteenth Party Congress, Jiang Zemin stated that Deng Xiaoping Theory represented Marxism of present day China and 'seeking truth from facts' embodied not only the essence of Marxism-Leninism, but also of MZT. He also emphasised, that if we discard Marxist-Leninism and Mao-Zedong Theory, we would lose the foundation for political legitimacy (Jiang Zemin, 1997, p.14).

Despite these ideological innovations, the continued need for adhering to the correct ideological line not only put considerable strain on the reform process, but also continued to have a critical impact on how the reform process evolved. This also highlights the implications of a path-dependent reform process, where former institutions and policy concepts still assert certain influence on further developments.

Consequently, it is crucial to recognise the significance of the selection of a specific reform approach - either a gradual or a 'big bang' strategy - and indicates the inherent political logic of any reform project and the role the existing state structure plays in this selection process; as well as during the period of implementation of the selected reform strategy.

5.3.2.5 The Sixteenth Party Congress

The official themes of the sixteenth Party Congress were to hold high the great banner of Deng Xiaoping Theory; to fully act according to the theory of the 'Three Represents'; build a well-off society; speed up socialist modernization and in building socialism with Chinese characteristics.

Addressing the accumulated political pressures, which found explicit expression in the Tiananmen protests, and in responding to the social changes generated by the reform period, Jiang Zemin promoted the 'Theory of the Three Represents' at the 16th Party Congress and successfully installed it as another major theoretical foundation for the Party to follow. He pointed out in his political report to the congress that the

“Three Represents” signifies a continuation and development of Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory, as well as responding to a different situation that placed new demands on the work of the Party and the state arising from developments and changes presently occurring in China and the world over (Three Represents, 2006).

adding that the ‘Three Represents’ signified

the crystallization of the collective wisdom of the entire Party and a guiding principle the Party must follow for many years to come (Three Represents, 2006).

A first indication of this new theoretical-ideological innovation was identified in an inspection tour in Guangdong Province in February 2000, in which Jiang Zemin emphatically pointed out that:

An important conclusion can be reached from reviewing our Party's history over the past 70-odd years; that is, the reason our Party enjoys the people's support is that throughout the historical periods of revolution, construction and reform, it has always represented the development trend of China's advanced productive forces, the orientation of China's advanced culture, and the fundamental interests of the overwhelming majority of the Chinese people (Three Represents, 2006).

The theory has three specific meanings. Representing the development trend of China's advanced productive forces - the Party's basic nature determines that it must represent the development trend of China's advanced productive forces. Representing the orientation of China's advanced culture – a socialist society is a society that develops and progresses comprehensively. A society is truly socialist only when its economic, political and cultural development is balanced and both material and spiritual civilization is advanced. Representing the fundamental interests of the overwhelming majority of the Chinese people - carrying out the reforms of opening up and expanding the socialist market economy, our Party must emphasize work for the interests of the people more than ever before. The Party's greatest political strength is that we have maintained close ties with the masses, and the greatest danger since assuming political power has lain in the possibility of being estranged from them (Three Represents, 2006).

Jiang Zemin called for the integration of entrepreneurs into the Party leadership, which in essence signalled an attempt of integrating an emerging social force in reforming China. However, in doing so, he stirred up a strong controversy with the conservative elements within the CPC. It should be remembered, that entrepreneurs had previously been the principal class enemy, and not surprisingly, there was a strong resistance within parts of the Party to accept his proposal.

Even so, the argument presented in the theory of the 'Three Represents' was that the purpose of Chinese socialism was to enhance the country's production capacity, and as capitalists performed this role, Jiang Zemin stated that entrepreneurs are good socialists

and therefore qualified to join the ranks of the Party. Yet, Jiang Zemin was not the first to argue in this way, as Chen Yun did so in a speech at the Eighth Party Congress in September 1956, by observing that:

the overwhelmingly majority of the national capitalists do in fact possess, in varying degrees, a knowledge of modern techniques of production and management. We need such useful knowledge as they possess ... it will be not to the advantage of the cause of the working class if they fail to enlist into its service those national capitalists who are willing to do their bit to build China into a prosperous and powerful socialist country (Chen Yun, 1956, p.160).

However, the increasing significance of the non-public sector as a key factor of China's socialist economy was also recognised, though it was stated that the 'state-owned sector must remain in a dominant position in major industries as well as in key areas which are related to crucial parts of the national economy', whereas before it was stated that the public-ownership should be the dominant form throughout the economy. Despite its similarities with earlier statements, in providing political-ideological justification for further narrowing the share of public-ownership in the Chinese economy, it could be argued that this change merely reflected the pragmatic attitude of the reform leadership. However, in doing so, it indicated how economic development created pressure to manage the ideological question of how to justify the ongoing expansion of market driven developments into a supposedly socialist economy.

This commitment of combining the socialist economy with market guided instruments, to integrate public-ownership and private-ownership structures within a single economy, continued and led to a critical change in the public policy profile of the regime. The success of these changes were heralded and embraced at the Sixteenth Party Congress. In his report Jiang Zemin emphasised that:

Reform and opening up have yielded substantial results. The socialist market economy has taken shape initially ... [t]o develop a market economy under socialism is a great pioneering undertaking never tried before in history ... [i]t is a historic contribution of the Chinese Communists to the development of Marxism (Jiang Zemin, 2002).

However, he not only heralded the important role the market played in providing economic growth and development for the people of China, but also for strengthening the country's position in the world, in stressing that by improving

the modern market system and tightening and improving macroeconomic control, [w]e should give a fuller play to the basic role of the market in the allocation of resources and build up a unified, open, competitive and orderly modern market system (Jiang Zemin, 2002).

Jiang Zemin not only recognised that China was still in the primary stage of socialism and that it would remain there for a considerable time to come, but in addition observed

that the principal contradiction is one between the ever-growing material and cultural needs of the people and the backwardness of social production (Jiang Zemin, 2002).



Thus when evaluating the challenges of the reform/opening process for the established consensus of the regime, namely the specific ideological framework, we can identify constant challenges in the process of theoretical innovation to align the ideological framework with the actual reform steps implemented. This was a critical issue as it threatened the consensus the regime was based on. Even as some novelty in ideological development can be observed, a strong element of continuity persisted, again reminding us of the impact a specific structural environment has in the context of a path dependent reform process.

Although the reform/opening process followed a political logic, economic implications and economic growth, based on decisions at various stages in the reform-process, did generate an economic momentum towards further marketization, which could not be ignored. As this generated economic growth and prosperity that affected the range of options available for future decisions. Consequently, one can argue that the changes in China's socialist economy occurred within a dynamic interplay of economic logic and political constraints.

Hence, this process of reinterpreting ideological positions, in introducing new approaches, clearly highlights the ability of agency to act, even when restricted by a

particular structural environment. What's more, the dynamic of the reform process so far evaluated also indicates, as discussed in the theoretical section, the capacity of agency to act consciously accordingly to its strategic interests in the context of a particular structural setting which limits the options available. Yet it clearly demonstrates that agency is neither a captive of a particular structural setting nor completely independent from it in making its decisions, consequently reminding us that a dialectical approach, like the strategic-relation approach evaluated in the theoretical section, provides a valuable approach for characterising the structure-agency relationship and thus for investigating the dynamic of complex political change.

This dynamic interaction between structure and agency is also identifiable, with regard to the process of integrating various market economic instruments with China's socialist planned economy since a fundamental change of the structural environment was not an option. However, it is noteworthy that over the course of the reform period, it became widely accepted that there no longer existed any inconsistency between plan and market, which indicated a partial adjustment of the structural environment. Consequently this also led to a change of the public policy profile of the regime and to a partial change in its underlining consensus.

Hence, in applying the term used in this research, these developments indicate a regime shift, a change within, instead a change of, specific regime features. One striking indication of the regime shift can be identified in the change of the nature of the Chinese regime as its revolutionary character, which characterised the Maoist period, was all but history.

Still, it is crucial to remember, the transition towards a market economy was not understood as an end in itself, but a means to accomplish long-term economic development and to strengthen the socialist system, which is also true of the whole reform/opening process. This applies especially to the issue of government and administrative reform; after all, the reform/opening process followed a political logic (Ploberger, 2010), though the implemented economic reform steps did generate a momentum to implement government and administrative reforms as well. Consequently, one can argue that the changes in China's socialist economy occurred within a dynamic interplay of economic logic and political constraints and reminds us not only of the impact a particular structural environment, the existing regime, has on future decisions but on the continuous relevance of the state as a structural entity.

Yet, ensuring that economic development can be guaranteed, it became increasingly relevant to address the related issues of government and administrative reforms, since changes made in the public policy profile and the economy required a modern administrative system as well.

5.4. The increasing pressure for political administrative reforms

As the reform/opening project continued and deepened as with China's increasing integration into the world economy, the pressures for political administrative reforms intensified. Developing a professional, modern and de-politicised state administration became imperative for China to continue its reform and opening course. Equally critical,

as emphasised by Goldman and MacFarquhar, Beijing's function as the dominant economic decision-maker declined, favouring indirect macroeconomic control instead (1999, p.6).

Adding to the pressure of establishing a more independent and professional bureaucracy as well as state institutions, facilitated the long-term process of weakening the Party's grip on the bureaucracy, on the economy and on state institutions. Yet, breaking up the Party-state symbiosis would reduce considerably the Party influence over government, state and economic institutions and consequently the political and economic power the CCP commands. In the terms employed in this research, the existing institutional fabric came under increasing systemic stress resulting in what was described in the theoretical part as an 'intrinsic dilemma'.

Yet, at the same time, there already have been previous calls for professional and independent state institutions, going back as far as the early 1950s, but there was limited response to it. This limited response was to a wide extent related to Mao's revolutionary approach and Mao himself, who regarded the bureaucracy as a potential enemy to his revolutionary project. However, it was the post-Mao period, which provided a political environment in which the reform oriented leadership could address these issues.

Despite the potential negative impact on Party dominance, there have been prominent voices within the Party arguing in favour of, at least a partial, re-structuring of the Party-state relationship, albeit strong conservative forces within the Party still resisted implementing any changes in the Party-government symbiosis.

One of the most prominent advocates was Deng Xiaoping himself. As pointed out by Zheng, Deng Xiaoping, as a pragmatic leader, was particularly concerned with an effective and efficient government administration, especially in facilitating further economic reforms (1997, p.192). By 1980 Deng Xiaoping put political reform back on the Party's agenda, calling for an urgent need to reform the Party leadership system, in order to address various shortcomings including: poor governance; an over concentration of power at various administrative levels; lack of distinction between Party and government; and to improve accountability. In addressing these shortcomings, he urged for a partial streamlining, a rejuvenation and professionalization of the cadres, and for more realistic policy proposals (Hamrin, 1992, pp.106-7).

Political reform and the separation of the Party from the government, was equally high on Zhao Ziyang's political agenda. In his political report to the Thirteenth Party Congress he emphasised that:

The deepening of the ongoing reform of the economic structure makes reform of the political structure increasingly urgent ... [w]ithout reform of the political structure, reform of the economic structure cannot succeed in the end' and 'the key to reforming the political structure is the separation of party and government. This means the separation of the functions of the party and the government (1987, p. 42, 44).

Nonetheless, such a proposal was still a very sensitive matter and he justified his demands by pointing towards the need of increasing government efficiency with regard

to the ongoing economic reforms. Zhao Ziyang was especially critical of the usurpation of the government role by the Party, emphasising that the Party and state organs differ in their functions, method of work and in their organisational forms. Consequently, one has to distinguish between the function of the Party and the government. However, he insisted that the Party has to exercise political leadership by formulating political principles and the major policy directions (1987, pp.44-5). Despite that economic considerations are at the centre of his argumentation, increasing the capacity of the Party was another crucial issue for him:

Where there is no distinction between Party and government, the Party becomes the executive body, only when the two are separated is it possible for the Party organisations to exercise better supervision and efficiently prevent or overcome bureaucratism (Zhao Ziyang, 1987, p.47).

Again, as it happens with other reform measurement, separating party and government should not only facilitate the fundamental aim of the reform/opening process, but also strengthen the capacity of the regime by relinquishing various aspects of overconcentration of power and bureaucratism. Indeed, separating the party and government did not aim at undermining the existing regime, instead it sought to enhance the regime's capacity.

A central demand was to abolish the 'Party core groups' which were re-established in the aftermath of the Cultural Revolution. However, the 'Party core groups' represented a major organisational means for the Party control of state agencies, abolishing them

would reduce the Party influence on state affairs. Yet, abolishing the ‘Party core groups’ was the most important reform policy proposed by Premier Zhao, and was aired in his political report to the 13th Party Congress. However, after his downfall in 1989, several of his reform measures were abandoned, among them the abolishment of the ‘Party core groups’ (Zheng, 1997, pp.199-200).

Equally challenging for the Party dominance over state agencies was the proposal for increasing the professionalism of the civil service, as the very idea behind a professional civil servant system is that they serve the state only, and not a specific political Party (Zheng, 1997, p.214). Shirk, comments that the aim of the civil service reforms was to establish a dual structure within the bureaucracy with a cadre of professional civil servants, selected and promoted on professional criteria, alongside the administrative officials appointed and promoted by the Party organisation (1992, p.66).

The challenges China’s administration faced was that expanding the reform process and in fostering its integration into the global economy, required more dynamic and responsive state institutions. This again points towards the problem of path-dependent change in highlighting the challenges in re-forming and re-structuring the party-state and state-economic administration in the context of an existing institutional matrix and a prevailing regime. However, it might be recalled that despite state structure represents a vital institutional environment for other actors to orient themselves, state structures themselves are not static; instead, they undergo a processes of adaptation.

Yet, the strong impact ideology had during and after the Maoist-period limited such processes of adaptation. Moreover, in the aftermath of the Tiananmen protests, the proposals made by Zhang Zhiyang were not implemented, as a conservative counter movement overtook the reform/opening project, especially in the political field. Nonetheless, as highlighted by Yang, despite the conservative backlash in the aftermath of the Tiananmen crackdown, Jiang Zemin, still emphasised in his speech at the Fourteenth Party Congress (October 1992) the need for further transformation of government functions, especially the separation of government and enterprises, for successfully developing a market economy (Yang, 2001, p.29). He repeated this call for an administrative reform at the Fifteenth National Peoples' Congress in early 1997, as the progress made in rationalising government activities were rather limited (Yang, 2001, p.36).

A critical aspect was the task of separating enterprise management from direct government interference and oversight. As management authority was granted to the enterprises, their status as an extension of state administration became weaker. In addition, we also saw the privatisation of smaller and middle-sized companies. This new approach saw a change in the nature of the economic linkages, away from a 'vertical' relationship between enterprises and the supervisory state organs, towards 'horizontal' market-types interactions. In this respect, Howell identifies the development of a more entrepreneurial Chinese state (1993, p.197). Again, these measurements were also seen as a crucial aspect in improving the efficiency in the economy.

Another important implication related to the integration of market economic instruments can be identified in the restructuring of the planning system. Whereas China's socialist economic system was dominated by what is described as mandatory planning, characterized by compulsory assignments decided at the central state level which companies had to implement, the reform/opening process brought an end to this planning system. As emphasised by Brodsgaard and Zheng, the state is no longer directly involved in implementing its policy, instead the Chinese state prefers to provide strategic guidance. The nature of Party and state control shifted from the micro to the macro-level (2004, p.12).

As the reform/opening process continued, organisational and administrative skills became increasingly important for the state bureaucracy which began to recruit personnel with these skills, consequently initiating a trend in which professional skills were favoured over ideological correctness. This subsequently undermined the ideological element when recruiting new personnel and added to a process of undermining the dominance of ideology in post-Mao China. However, we should remember, as pointed out by Shirk, the Party's control over the government made the economic reform drive possible in the first place, because Party leaders had the power to propose new directions for reform and urge the bureaucracy into action (1992, p.67). Yet, a fundamental aim in reforming the Party-state symbiosis was and is to create a more efficient and professional bureaucratic structure, but not to weaken or undermine the established regime.

Highlighting the impact of the reform/opening period on China's political and administrative system, Burns notes, that though China's political system retains its Leninist origin, state and administrative institutions were gradually strengthened and institutionalised as the reform/opening period continued. Here institutionalised refers to a more regularized decision-making process and state autonomy from society (Burns, 1999, p.24).

Over time, the aim of administrative reform changed, from building a higher efficiency, as envisaged by Deng Xiaoping at the beginning of the reform/opening project, to a more genuine change of the state and government administration at a later stage in the reform/opening process. Dali Yang highlights that the advocates of government reforms in the early and middle part of the 1990s, envisioned a fundamental remapping of government functions, exceeding a mere streamlining of the existing state and government administration. The deep interrelationships between political and economic reforms however were at least recognised (Yang, 2001, p.32).

Yet, adaptation will, over time, undermine various aspects of the existing regime structures and consequently weaken the regime itself. White refers to three necessary implications at this stage of development: first, the need for a fundamental reassessment of the CCP's role in Chinese politics, its internal organisation and its external relations to other economic and social actors; second, a re-structuring of the central-local institutional relationship; and third, a thorough reform of the state administration in setting up a modern and professional state structure capable of dealing with the increasing market economy (White, 1993, p.237). Howell, also points towards the

transitional character of the Chinese state since the reform/opening process began, highlighting that the reform/opening process stimulated the emergence of a 'market-facilitating state'.¹⁴

Yet, while the institutional adaption process was rather slow, the pressure of addressing the shortcoming continued, whereas China's WTO membership intensified this pressure for adaptation. Still, the changes within the economic field, as discussed above, and the increasing internationalisation of China's economy, added a trend of weakening the party-state symbiosis and consequently undermining the regimes ability to dominate and to steer economic development.

As the reform/opening process continues, the likelihood of a structural crisis will increase, especially if the Party fails to come up with a constructive approach to the issue of party-government symbiosis within a modernised and increasingly open economic system in which predictability is highly valued. The Party's ability and capacity for institution building will undergo a critical test in the years to come.

¹⁴ Key features of the 'market-facilitating state' are: *First*, such a state is *entrepreneurial* in its character as it promotes both entrepreneurship and engage itself in risk-taking, profit-seeking economic pursuit. A *second* feature is *legalistic*, meaning that all relations between economic actors in the marketplace are defined legally and economic disputes are settled through the law. *Third*, the nature of such a state is *technocratic*, as the state is run by technically and professionally qualified people. *Finally*, the state is *regulatory* as it seeks to regulate the market at the macro-economic level whilst withdrawing from micro-level management (Howell, 1993, p.181).

Chapter 6 - The CPC's political challenge in the countryside

It should be remembered that the early reform steps focused mostly on the agricultural sector, which brought huge economic benefits to many rural areas. Moreover, the success of these early reforms also fostered a dynamic development of the non-agricultural sector in rural parts of China, consequently providing new and needed job opportunities for China's rural population.

Despite the undeniable success of the early reforms in the agricultural and rural industrial sector, as the reform process continued and deepened a range of economic repercussions developed. Among them we can identify an increasing income and development gap between provinces as well as a growing rural-urban development divide; a sharp decrease in public projects and provisions in rural areas; an increasing array of taxes and levies on farmers and the rural population.

Together, these developments increased the political pressure to manage these negative trends, leading to a process which can be characterised as partial regime shift with regard to the existing regime's position within rural China. It also provides an example of the dynamic and interactive relationship of a particular structural setting and strategically acting agency.

To analyse the developments in rural China and the implications this had for the existing regime and regime dynamic, this section will focus on the following issues:

- a short overview of the pre-reform situation in rural China;

- the process of agricultural and rural reform as well as their economic-social implications;
- the shifting political power and the related implications for the stability and dynamic of regime change.

6.1 The rural commune system and its legacy

It is important to be aware that agricultural collectivization did not occur immediately after the Communist victory in 1949. Actually, the collectivization of Chinese agriculture proceeded gradually throughout the 1950s; however, this process reached a climax with the ‘Great Leap Forward’ (1958). Until then, some of private plots were permitted and small local markets existed in rural areas as well.

Agricultural collectivisation was, as emphasised by Pyle, informed by the following considerations: collectivisation of agriculture will allow economies of scale to be realised in agricultural production; it will foster the provision of social services and it will enable the transformation from savings and profits made in the agricultural sector to the industrial sector (1997, p.52). Walker argues in a similar way, highlighting that as long as economic decisions in rural China were taken by 130 million individuals, agricultural production and distribution almost certainly could not be integrated into the national economic development plan, nor considerable gains made in agricultural modernisation. However, collectivization was also interpreted as the means to establish socialism in rural China (1989, p.448).

Ash emphasises this point as well, by noting, that the commune system favoured the state influence in the state-peasant relationship, by giving the state a strong control of economic activities at the local level (1991, p.493). Blecher also argues that the CPC was the dominant institution, as committees at all levels assured that its interest prevailed and central government targets were met at the local level (Blecher, 1997, p.191).

Yet, over time decision makers at the central level became aware, that not without huge economic and social cost could large collectives require significant managerial and supervisory skills to be run efficiently, otherwise the supposed benefit of the collectivisation may not materialise; also it may lead, as actually happened, to economic disaster. The outcome of the 'Great Leap Forward' provides evidence for such a bleak scenario. Still, although the commune system might be viewed as a complete failure, yet despite all the problems it created, some positive changes in rural China were realised. Among these few successes were huge improvements in rural infrastructure in the form of the building of roads and bridges, land reclamation projects, as well as water conservancy and irrigation projects.

Yet, neither the victory of the CPC in 1949 nor various programs of communisation improved the living standard for most of the rural population. Pyle highlights that despite that rural areas such as Anhui did offer considerable support to the revolution, many regions were as poor in the late 1970s as they had been in the 1940s (1997, p.62).

6. 2 The process of agricultural und rural reforms and their implications for rural lives

The first local initiatives within the agricultural sector occurred when a particularly poor province, Anhui, was affected by a horrendous drought in 1978. Hundreds of thousands of people fled the rural areas and those who stayed behind demanded a change in the agricultural system. They demanded to return to what was described as the ‘old system’ - the household responsibility system – to overcome the effects the drought caused.

This marked the beginning of an alternative course of development within China’s rural economy. Although only locally based and limited at the onset, this selective introduction, or more accurately, re-introduction of the household responsibility system in 1977/8, was a hallmark of the earlier agricultural reforms and their success lead to their widespread implementation in the early 1980s.

Even so, we should remember that when these first steps were introduced they were illegal, and were only approved by the central government later. However, Deng’s ascendance to power in 1979 provided a positive political background for such endeavours. It was at the Third Plenum in December 1978, when the CPC under Deng’s leadership revitalized the main features of Liu’s policy as a strategy to increase agricultural production (Wang, 1995, p.264). In the communique of the 11th Third Plenary Session it is stated that ‘the whole Party should concentrate its main energy and efforts on advancing agriculture as fast as possible’, emphasizing that ‘agriculture, the

foundation of the national economy, has been seriously damaged in recent years and remains very weak on the whole' (Communique, 2009).

Even so, as Pyle notes, it was not before September 1980 that the Central Committee of the CPC published 'Document 75' which gave the 'household responsibility system' the status of an official policy, but still restricted to very poor regions. However, it was finally approved officially with the publication of 'Document No1, 1983' and 'Document No 1, 1984' (Pyle 1997, pp.60-61).

Yet, as previously observed, several of the reform measures were not genuine innovations, indeed, previous policies were reintroduced. With regard to the household responsibility system, as mentioned above, it was originally introduced in 1956. Wang emphasises that the household responsibility system was a modification of Liu Shaoqi's 'Three Freedoms and One Guarantee'. Originally, Liu Shaoqi's policy included free market, private plots and peasant mobility for managing their own farms on the basis of contracts for fixed output quotas for each household (Wang, 1995, p.264). Although Liu Shaoqi's policy was subsequently ruthlessly criticised and suppressed during the 'Great Leap Forward', it re-emerged in the aftermath of the 'Great Leap Forward' to counter the widespread starvation, which was caused by the 'Great Leap Forward.' However, in 1961 Mao again became hostile to it and favoured collectivism instead (Fewsmith, 1994, p.25).

Nevertheless, as pointed out by Ash, at this stage of the reform process, changes within the collective agricultural system were undoubtedly designed to enhance the quality and

output of the collective agricultural system, rather than to re-align or re-define the state-peasant relationship (1991, p.494). As pointed out by Fewsmith, the Dazhai model - where the production brigade comprised the basic unit (a system which became accepted after the disaster of the 'Great Leap Forward') - was replaced by a system in which the autonomy of the production teams (which organisationally was below the production brigade) became the focus of agricultural production followed by further transformations towards the family level. This also included a drive for sideline production, another indication of a creeping privatisation process in rural China (Fewsmith, 1994, pp.20-21). Evidently, by fostering the restoration of private plots and the increasing privatisation of China's agricultural system throughout the 1978-81 period, it fuelled a process of demise of the commune system.

The theoretical debate regarding 'practice as the sole criterion of truth' facilitated the political-ideological acceptance of the 'household responsibility system' as did the positive results in terms of increasing agricultural output. Even so, moving away from the planning system towards a more market driven economic system, consequently scaling back the political influence in local economic decisions, reduced the central government influence on the local level. The same process of change also impacted on the local administration as its former grip on the rural population weakened.

Moreover, rural China witnessed another profound reform related change in the early and mid-1980s: the emergence of townships and village enterprises (TVE's). Overtime, as an indication of their economic success, TVEs became a powerful economic force and dynamo for economic growth in rural China, affecting the economic life of many

villages. The development of TVEs also provided a visible example of the rapid growth of the extra-budgetary source of revenue that made township and village enterprises a highly lucrative source of income for local governments, especially in the early phase of the rural reform process. However, TVEs did not dwarf agriculture as the most important provider of employment in rural China. The data in Figure 25 indicates the increasing relevance of TVEs as a provider for jobs. Nevertheless, the economic

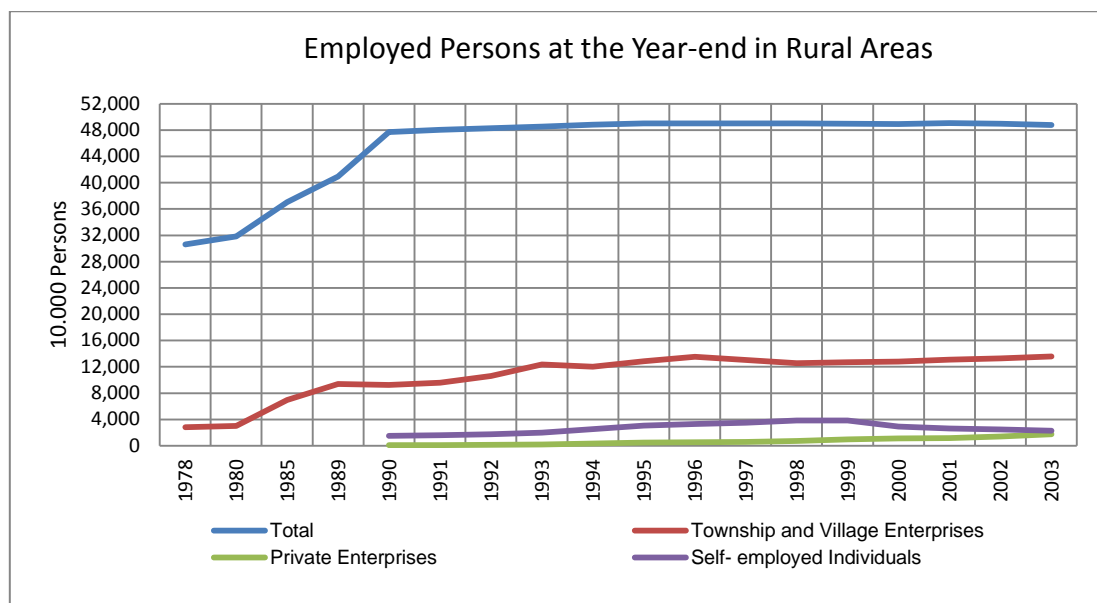


Figure 25 – Employed Persons at the year-end in Rural Areas Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04

success of the TVEs provided indirect political support for the CPC in China's rural areas. Although not always successful, but driven by economic incentives, local and regional political actors throughout rural China initiated an economic growth dynamic, rarely seen in rural China before. It is worth remembering that the TVEs originally emerged through the Great Leap Forward, thus various reform policy instruments employed during the reform period were not genuinely new.

TVEs fulfilled another crucial role in rural China by absorbing a huge surplus of labour. This labour surplus was generated by the reform process itself, as labour as a cost factor, became increasingly relevant. As Blecher points out, according to socialist ideology of Maoist China, labour was not a commodity to be sold and did not represent a cost factor (1997, p.196). As labour became a commodity, underemployment and unemployment turned into a mounting and serious issue, not exclusively, but particularly for rural China. The huge movement of surplus rural labour towards the coastal areas, as the reform process gathered momentum, is another manifestation of the existence of a huge surplus labour force in rural China.

What's more, as TVEs operated outside the planning system, their economic growth also indicated an ongoing structural shift in China's economy, namely towards a more competitive market based one. Therefore, as Watson argues, we can identify a fundamental dynamic of change in rural China between 1978 and 1984 characterised by increasing marketization, diversification and the transfer of resources to off-farm activities (1998, p.504).

Over time we witnessed the emergence of a local corporate state in rural China. Although continuing with the Maoist practice of planning and monitoring, this newly emerged local corporate state, as argued by Oi, was based on new, and critically, local incentives, rather than on national interests (Oi, 1995, p.1145). An important feature was, that contrary to the Maoist period, revenues generated at the local level, were no longer required to be transmitted to the upper levels. The institutional changes, which accompanied these developments, as emphasised by Oi, initiated a change in local

governments, from merely providing administrative services for the central state, towards mature and enthusiastic economic actors at the local level (1995, p.1137).

Notwithstanding, that reforms of the agricultural sector did foster enormous development and income opportunities for the rural communities, and therefore transformed the lives of huge parts of China's rural population, nevertheless, not all rural communities were able to profit from this development equally. These developments were not only an outcome of political decisions – as coastal regions were allowed to perform a leading role in the development and in opening up to the outside world – but of local economic and geographic realities as well.

Consequently, the disparities in development and income increased considerably between China's provinces and we witnessed the emergence of inequality within provinces, especially between rural and urban areas. The occurrence of such strong disparities between and within provinces was a significant reversal of the achievements of an egalitarian order, yet on a very low level, established in the 1960 and 1970s. Figure 26 provides some data highlighting the development of an increasingly unequal rural household income situation of selected regions.

Moreover, lesser development did not only result in reduced income opportunities for portions of the rural communities, but had also wider social and welfare implications. With the demise of the commune system, many social services provided by the commune system were no longer available in the same quantity. Alike, rural

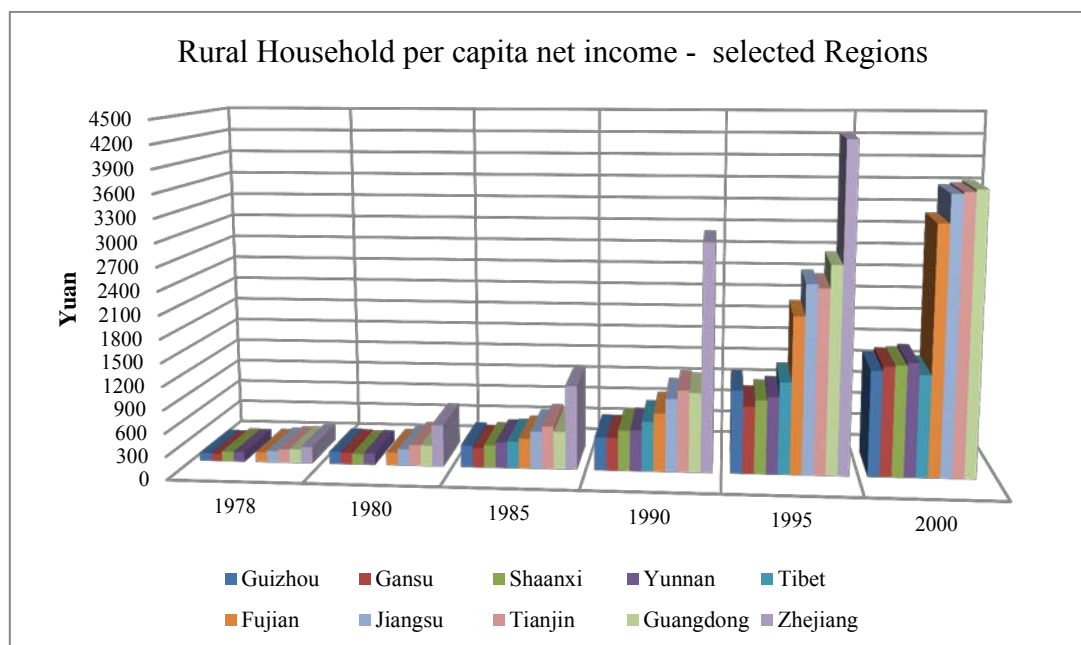


Figure 26 - Rural Household per capita net income – selected regions (Yuan) Source: Derived from various editions of the Chinese Statistical Yearbook (1996/98/04)

infrastructure, which also lay within the responsibilities of the rural commune system, also started to decay over time as for example water irrigation systems. Blecher emphasises that a source for the decline of rural infrastructure can be identified in the financial crisis village governments faced since the reform period began, as many were literally bankrupt (1997, p.197).

Hence, even as the success of the early reform process had greatly reduced rural poverty early on, and in doing so formed a source of its success, yet it did not eliminate the ongoing demand for development nor prevent the rise of new challenges within China's rural society.

The introduction of private aspects of agricultural production methods also had political-ideological implications for the CPC by undermining the commune system to a point where it became irrelevant with regard to rural agricultural production and with the administrative of rural China; as its power was transferred to the new township governments. This in turn began to undermine the regime's grip on rural China.

6.3 Shifting political power in rural China and its implications for regime stability

With regard to the dynamic of regime stability, one has to recognise the fundamental organisational changes that occurred in rural China, in which some originated from the reform process. Yet others were introduced as a response to increasing political pressure resulting from some of the earlier reforms introduced, consequently leading to a significant change in the institutional setting within rural China. While some of these changes have already been examined above, this section aims to evaluate those that can be identified in the local party structure and the implications they carry for regime development.

To begin with, it is worth recognising that the village embodied the space where politics became concrete and where the party apparatus finally connects with the people. In organisational terms, a party branch occupies the lowest rank within the hierarchical structure of the CPC. However, as emphasised by Wibowo, it is within the party branch, where many routine activities as recruitment and education are conducted, and it also serves as a transmission belt where decisions made by the Central Leadership are passed

down to the rank-and-file members. Within the local party branch the Party Secretary is the dominant actor; it is at his discretion how to manage the village. Yet, most Party Secretaries faced two challenges: low salaries and handling tough and complex tasks (2000, pp.14-6).

The village is also the place where dissatisfaction with the party and its cadres is often aired and considerable pressure can be directed at the local Party cadres. Moreover, local dissatisfaction in rural China does not only have local or regional relevance, but it can also carry potential national implications. After all, widespread rural unrest has the potential to impact negatively on political stability and consequently on the regime's ability to manage the pressure and dynamic of the reform process. Therefore, control over the countryside was identified as imperative, with the central leadership and the party being quite sensitive to developments in rural areas.

Moreover, over the course of the reform process rural China witnessed an increase of popular discontent affecting more and more rural areas, often accompanied with serious violent outbursts, as a response to the continuous deterioration of both welfare provisions and rural infrastructure. To counter this process of infrastructure and welfare decline, local leaders introduced an array of taxes on the rural population, but often failed to deliver on their promises. This increased the discontent within rural China considerably, and as noted by Jakobson, instances of rural unrest increased markedly from the mid-1980s. In 1991, for example, rural China witnessed 1.7 million cases of resistance, 8,200 cases of injured or killed township and county officials and the ransacking of 560 county-level offices (2004, p.100).

With regard to the institutional changes, the former commune system was replaced by the household system in economic terms as discussed above. Hence, the reform process gradually undermined the economic position of the CPC in rural areas as more economic decisions were transferred outside the local party organisations and were made in the private sphere instead. As emphasised by Baum and Shevchenko, since village and township cadres became increasingly involved in entrepreneurial activities, the political and ideological performance of local party branches not only declined markedly, but their organisational identity was profoundly altered as well, adding that if economic success failed to materialise, the influence of local party organs deteriorated further (1999, p.342). This in turn also undermined the CPC's ability to employ ideological campaigns and propaganda to control the countryside as it did before. It is also vital to recognise, as emphasised by Oi and Rozelle, that de-collectivization undermined a village leader's ability to use agricultural revenues for financing social or infrastructure measures for the community (2000, p.526).

Additional changes were introduced by the regime, and by 1984 the political space the communes had previously occupied was now entirely taken over by the township governments. However, some of their tasks are similar to that of the communes, at least with respect to fulfilling central government policies, as in the implementation of vital policy measures for the central state including population control, tax responsibilities, and land use regulation to name a few. Yet, the Dengist reforms did not stop at the commune level, but had further implications as well, as another tier of the commune system, the brigade, was replaced by the village government, as to the agenda of local administration, the provision of social services in addition to industrial and commercial

development. In fact, one can argue, that the reform process led to a general depolitisation of the rural economy and of rural life, in turn undermining the previous dominant political-economic position the CPC enjoyed in rural China.

Concerning the political-economic situation in rural China, one can argue that as long as a village is prospering in socio-economic terms, and there is less evidence for outright corruption of village officials, it is less likely that the position of the Party Secretary will come under scrutiny. Whereas when the economic outlook is pessimistic, corruption and misuse of power by officials are both widespread and obvious, then the position of the Party Secretary and that of the CPC will be increasingly scrutinised which can lead to protest and violence. It is worth pointing out that a village cadre is not a rotating cadre, comparable to cadres at other levels within China's bureaucracy, and he has to live within the village and therefore is exposed to both local anger and confronted with local demands.

This not only increases the pressure in the cadre-village relationship but also the cadre's relationship with the township, the next level of authority in the political hierarchy as the village cadres are responsible not only for implementing national policies, but also of implementing policies formulated at the township and county level.

The pressure of these conflicting interests increased further as the reform project progressed and the CPC's institutional and economic control of the countryside loosened in turn as new economic opportunities for local cadres arrived, instances of local corruptions increased considerably. Hence, with the deepening of the reform

process, economic prosperity became almost a universal measurement for success of cadres throughout rural China and almost completely replaced the ideological aspect. However, the successes of local Village enterprises not only became a major source of economic wealth for a village, but also provided political legitimacy to the local party branch and by extension for the CPC.

Even so, the increase of corruption cases concerning local and regional cadres, over time developed into a serious political issue. Yet, the stability of rural China is of vital concern for the central government and for implementing the regime's reform process, consequently identifying and implementing a response to the increasing socio-economic instability of some parts of rural China became a critical issue. The introduction of village elections constitutes such a response. Village elections became a matter of central government concern, when the then vice-chairman of the National People's Congress Standing Committee, Peng Zhen, viewed them not only as a process conforming with party rule, but hailed them as instrument of tightening the party grip on parts of rural China as well. Moreover, Peng interpreted the issue of village democracy as a matter of 'life and death' for party control, by preventing further deterioration of cadre-mass relations in rural China. Arguing that the party itself was no longer able to supervise its rural cadres, but village elections would enable the villagers to do so (O'Brian and Li, 2000, pp.474-5).

The regulations related to village elections state that Village committees are elected for three years and its chairman and vice-chairman shall be directly elected by the members of a village who are older than eighteen years old. The Organic Law also stipulates, that

‘[n]o organisation or individual may designate, appoint or replace any member of a village committee’ (Article 11) and that the ‘villagers who have the right to elect in the village, shall nominate candidates directly. The number of candidates shall be greater than the number or persons to be elected’ (Article 14).

Nonetheless, strong and critical voices were raised against the introduction of local elections, especially from the local level as doubts were aired that village committees would become, over time, too independent from the local and county level party structure. A related concern was, to what extent village elections would interfere with policy execution at the village level, enhance fractional rivalry and intensify lineage conflicts (O’Brian and Li, 2000, p.479). Although, local cadres and local leaders were also concerned with losing their power, yet, the implementation and extension of village elections was informed by a struggle between and within the central, national, local-level party and government authorities. For the central leadership, being confronted with rising numbers of corruption cases of local cadres, led to an emerging legitimacy deficit in wider parts of rural China, thus village elections were identified as a method of increasing the accountability of local cadres and in providing an additional basis of legitimacy for the party.

Li points towards an even more important feature, as villagers can freely choose their leaders, this seemingly constitutes a significant change to the political opportunities now available for Chinese villagers, even though it has not enabled villagers to challenge state policies such as birth control, but it has strengthen the position of villagers when resisting unlawful local policies (2001, p.7). Hence, the introduction of

village elections did create, as pointed out by Oi and Rozelle, the potential for three competing loci of power at the village level: namely, the villagers' committee, the villagers' assembly and the already existing village Party branch headed by the village Party secretary (2000, p.527). It is significant to recognise, that a Party secretary is not elected but still appointed by the next political level in the hierarchy, the township.

However, there are provisions made in the Organic Law to ensure, that the village administration became more open, as the village committee shall apply a system of open administration as well as it shall guarantee the truthfulness of what it is required to publish. The village committee is also subject to inquiry by the villagers (Article 22) (Organic Law of the Villagers Committees of the PRC, 1998). As for the village assembly, the Organic Law stipulates that

The village committee is the primary mass organisation of self-government, in which the villagers manage their own affairs ... [it] shall manage the public affairs and public welfare undertakings of the village ... (Article 2)

as well as to

support the villagers and assist them in their efforts to set up various forms of co-operative and other economic undertakings in accordance with law, provide services and coordination for production in the village, and promote the development of rural production and construction and the

socialist market economy' (Article 5) (Organic Law of the Villagers Committees of the PRC, 1998).

All these measures should help to improve the relationship between the villagers and the party at the village level, by increasing the transparency in running village affairs. However, village elections are not to be viewed as an experiment with local democracy, but a mechanism to manage the increasing instability within rural China as well as to respond to the emerging legitimacy deficit the party faces in rural China. Consequently, one should not expect that introducing Village Elections will necessarily generate a dynamic which will see elections spreading to other levels of governance like the township level, at the next level in the administrative hierarchy in China. After all, the occurrence of Village Elections is not the outcome of an awaking rural population; instead, their implementation was rather viewed as an instrument of the regime to facilitate its own interests.



The economic success and instances of rural unrest we have witnessed in rural China since the beginning of the reform period are good indications for both the success and challenges a specific regime faces when implementing a reform process. These developments also highlight the inherent dynamics and challenges of a reform process, as it can lead to unintended political-economic consequences for a regime. It also reminds us, that success at one stage of a reform process, does not guarantee success at a later stage as new dynamics also provide new challenges and with it the political

legitimacy is time sensitive, as discussed in the theoretical section. Critically, the reform/opening process brought not only economic reform to the countryside, but instigated a process in which the economic and political administration became increasingly separated institutionally.

Changing the economic incentives, and abolishing the commune system, not only led to depolarisation of rural China, but also changed the structural environment within rural China. In applying the terms used in this research one can identify, a regime shift within the existing rural regime. In addition, the economic and institutional changes observed in rural China also highlight the dynamic interchange between structure and agency since some structural changes were brought about by agency behaviour in the first place, even as agency behaviour was restricted by the former prevailing impact of that structural environment. The dynamic of change observed reminds us, as emphasised in the theoretical section, that it is more appropriate to apply a dialectical approach, one which is characterised by strategic actors acting within the context they find themselves.

Chapter 7 – China - lessons learned

As evaluated in the research outline and the literature review, China's reform process draws considerable attention for a variety of reasons. Among them are enquires of the role the state plays in economic development and with it a re-invigoration of the discussion of the role of private and public goods in facilitating economic development; re-assessment of the belief that a 'big bang' approach is superior to a gradual reform strategy; challenging the widely held assumption of a co-existence of an authoritarian hierarchy and a liberal market economy; and that authoritarian systems are inherently fragile. Each of these debates raises questions about the nature and dynamic of change we can observe in the existing regime in China.

However, applying the concept of regime change, which focuses on the extent and dynamic of change, ranging from regime shift (change within a regime) and regime change (change of the regime) provides a more nuanced understanding of the relevant processes of change. Hence, in doing so the focus of inquiry is neither distracted by the question of the level of state intervention that is appropriate for development, nor to what extent a system transformation, such as from an authoritarian hierarchy to a pluralist democratic one occurs. Although these are relevant issues, yet focusing on such concerns will distract us from concentrating on critical developments in complex political change.

Hence, the reform/opening process constitutes a particular response to the political and economic challenges the regime faced in the aftermath of the Cultural Revolution, as the

excesses of these political campaigns undermined considerably the political legitimacy of the CPC to rule. A dire economic situation and the backwardness of China's economy also added to the formidable political challenge the regime faced, namely that socialism provided an alternative and a more successful avenue of economic development to capitalism. Undeniably, if socialist inspired economic growth could not surpass capitalist based growth, the underlining consensus the regime was based on would have been severely threatened and could even have undermined the regime's standing in the wider society.

Hence, the regime faced a crisis situation and its capacity and willingness to adapt was severely tested. Yet the Chinese regime did manage to respond to these pressures for change, by introducing various adaptations and consequently managed to avoid a potential process of regime change from occurring. This also reminds us that a crisis does not merely comprise a moment of impending break down, but indeed a strategic moment of transition in state and regime development. However, it should not be taken for granted that a regime will be able to generate a positive response when faced with a crisis situation and it is an indication of regime strength and flexibility in formulating a successful response when confronted with such a situation.

Avoiding regime change - the change of the regime - does not implicate that we cannot identify partial change either. As stated in the theoretical section, change comprises a continuum from partial adjustments to a fundamental breakdown, with regime shift referring to partial change within the existing regime, as actually happened in the case of the Chinese regime.

One response the regime introduced included alternations in its public policy profile with regard to political-economic institutions as the existing planned-economy was not only re-defined but market economic approaches were combined. Adding to the dynamic of change within the public policy profile was the decision to open the former closed economy to international trade, even partially as it was at the beginning. Yet, these links with the international economy grew stronger until China became a major destination for international trade and investment with China eventually joining the WTO. Together these developments and adaptations not only lessened the regime's ability to steer the economy via an interlocking command structure but also introduced a structural transformation of China's economy.

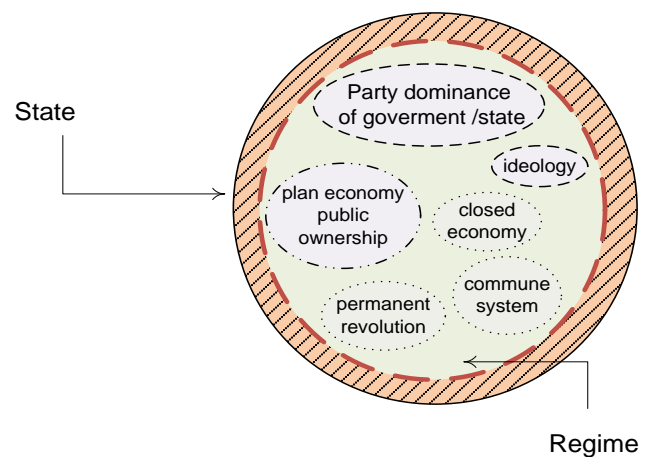
Another critical aspect of change was the regime's ability to introduce various new characteristics into its underlining consensus, even as this process was neither a smooth one, nor one which has reached a final stage yet. The regime continues to manage this challenge as the continuation and deepening of the reform process increasingly undermines the regime's existing consensus. This is significant because if the regime would abandon the three-fold guiding principles on which the consensus rests, namely Marxism, Leninism and MZT, it would deprive itself of its political legitimacy and the rationale for its dominant position in Chinese politics, consequently opening the possibility for regime change to occur.

Even when considering the significance of partially re-defining the regime's consensus - the changes which occurred within the rural economy, the abandoning of the commune system and the subsequent institutional changes as well as the introduction of village

elections - these not only brought about additional change in the public policy of the regime, but also led to changes in the existing political-economic institutions which characterized the rural economy and dominated rural lives before the onset of the reform process. Yet it should be emphasized, that neither the end of the commune system nor the introduction of the village elections were envisaged at the beginning of the reform process and indeed were responses to the dynamic of change the reform generated.

Taken together, these changes indicate a remarkable adaptation capacity of the existing regime, when faced with a crisis situation. The Chinese regime changed from a revolutionary one, inspired by campaign style policies and mass mobilization, to a conservative one by establishing a rational and stable regime structure which had a fundamental impact on its public policy profile and the existing political-economic structural environment. Even as regime change was avoided, these changes indicate that a regime shift occurred. Figure 27 provides a graphic illustration of these processes.

Figure 27 – Change within the Chinese Regime



One indication for the impact of the existing structural environment was that the whole reform process followed a path-dependent process as the political, economic and administrative viability - the extent to which new measures were compatible with existing ones - limited the options available for the reform leadership given that the existing state and regime-structure provided the structural context. Though, it is also vital to appreciate that it was the Maoist state with its Leninist system, though weakened by the Cultural Revolution, which provided the political-economic context within the reform/opening project that took shape. The impact of this structural environment clearly limited the scope of the reform/opening project and influenced its course as well. After all, a basic transformation of the existing regime was not an option at all. Hence, we are reminded that a reform process takes place in the context of a particular national and international structural environment, characterized by constraints, choices, trends and contingencies.

So far, the exiting regime has showed a remarkable ability, though not without strong internal disagreement, to adapt its regime structure and to avoid a process of regime change from occurring. The success of the reform process can not only be measured in economic terms, but alike with regard to regime stability, the original aims of the reform/opening process were to strengthen the regime, and to re-legitimize the leading position of the CPC in Chinese politics and society; this goal was certainly achieved.

However, the reform/opening process also saw the development of unintended processes like the development of a rural-urban income and development gap; a trend which still persists. Although a temporary income and development gap was

anticipated, neither the actual level of disparities nor the persistence of these developments was appreciated. This reminds us that every reform process generates its own momentum as one set of changes create unintended challenges and opportunities. Consequently, we should be aware that the actual direction the reform/opening process took were neither the logical nor the inevitable outcomes of the initial reform/opening strategy. Rather they are the result of cumulative steps and unintended consequences of complex political-economic processes. This dynamic of complex political change, an inherent issue of every reform process, is one the existing regime has to cope with. This dynamic of success and malfunction was especially apparent in rural China, which lead to the extensive nature of change as mentioned above.

Still, the reform process achieved a century old goal of Chinese governments and regimes, to make China a powerful and respected nation again. It is this success which provided the regime with a renewed political legitimacy and national consensus it could build on. Even so, it remains an open question, to what extent the regime will be successful in continuing to manage the ongoing adaptation process, to accommodate new emerging social issues and demands within the structural framework of the existing regime.

PART III – JAPANESE CASE STUDY

The Japanese case is another insightful example for analysing complex political change and for analysing the dynamic of regime development. The Japanese case demonstrates how success can undermine the stability of a regime. It also draws attention to the observation that success at one stage does not guarantee regime success at other periods as the contradiction between facilitating an extraordinary process of economic modernization over a lengthy period of time, and the seemingly impossible task of the same regime overcoming the challenges from the 1990s onwards¹⁵.

As such, the specificity of the Japanese case in covering both its success and failure requires taking a long-term frame of analysis. In doing so, we can then avoid focusing overly on either its success or its failure, as this is a limitation of common approaches in analysing the performance of the Japanese political-bureaucratic-economic regime and underlines the contention surrounding the record of the Japanese regime. Though already discussed in the literature review, it is worthy to recall some of the points within that discussion. Whereas Johnson (c1995) identifies a strong Japanese state and Wilks and Wright (1991) add weight to this position, Wolferen (1989) takes a contrary view, namely that the Japanese case provides an example for a weak state thesis. Reed highlights the misperception involved in interpreting Japan's development experience by stating that there is a bias in comparing the Japanese state with the United States as

¹⁵ This evaluation of the Japanese case study with regard to regime change is based on Ploberger, C. (2012) *Analysing Complex Politic Change by Applying the Concept of Regime Change: Identifying the Transformations within the Japanese Political-bureaucratic-business Regime*, *Asian Social Science*, 8: (15): pp. 12-23.

well as a tendency to compare it to Western ideals, instead of with Western realities (1993, 6).

Yet, the Japanese case also provides an excellent example for what was discussed in the theoretical part, that there are few attempts to analyse regime as distinctive from both a government and the state, since much of the discussion centres around the nature of the Japanese state and focuses on particular aspects of the Japanese regime, but without differentiating between them.

Hence by applying the concept of regime change, and consequently selecting a long term focus, it will allow us to gain a deeper insight into the dynamic of change with regard to the Japanese regime and thus overcome such one sided interpretations as mentioned above. Hence, the period selected will cover developments from the mid-1960s to the late 1990s consequently incorporating both the success and failure of the Japanese regime. Moreover, it is suggested that the economic crisis of the early 1990s reflects a more fundamental challenge than merely an economic one.

It is worth remembering, and it will be included in the analysis below, that the regime dealt successfully with various economic and social challenges before. Thus, the seeming inability of managing the challenges the regime faced from the early 1990s onwards was in stark contrast to its earlier success in responding to various challenges. This may reflect what was identified in the theoretical section as an 'intrinsic dilemma', indicating a situation in which an existing institutional framework is no longer suited to manage current challenges. However, it is crucial to remember that a crisis is not

necessarily a situation of immediate breakdown, but indeed, it may offer the opportunity of re-interpreting or re-legitimizing existing institutional arrangements, thereby providing an existing regime with the opportunity of responding to the challenges it faces. Even so, it should not be taken for granted that a regime will be successful in doing so and it will be an indication of regime strength and flexibility if it is able to manage a crisis situation successfully as it is in the case of the crisis the regime faced from the early 1990s.

Thus, as emphasised before, the concept of regime change will provide additional insight when evaluating these processes of complex change. Hence the analysis will focus on the extent we can identify either a process of regime shift or regime change in Japan's regime:

- Identifying the Japanese regime and its constitutional parts
- Addressing the controversy related to the nature of the Japanese state and the regime's involvement in economic development
- Identifying the influence of the bureaucracy within the regime and the dominant role the LDP played in Japan's party politics and with regard to regime stability
- Highlighting the regime's successes and the challenges it faced in the past
- Analysing changing internal regime structures and the seeming impossibility of the regime in managing the challenges it faced from the early 1990s

The Japanese case alerts us to both the challenges involved in analysing complex political development and in applying well established criteria for political analysis, such as the state-market dichotomy, although useful as they may be as analytical tools, they do not necessarily fit well with the complex reality of political dynamics and the role of the state in facilitating economic growth and development in general. As such, the Japanese case is also a strong reminder, as discussed in the theoretical section, that since politics involves a dynamic mix of market and government, they should no longer be identified as opposing principles, but instead as complementary.

The Japanese case demonstrates the crucial importance of a particular national environment for the occurrence and dynamic of complex political change and consequently the particularly relevance of agency-structure interaction for political dynamics.



To start with it is important to analyse the specific characteristics of the regime. Identifying its internal structure and interactions, will allow an evaluation of the specific characteristics of the Japanese regime as these interactions not only shaped important aspects for the modus operandi of the regime, but alterations in these relationships can indicate either changes within or changes of the regime.

Chapter 8 – The Japanese Regime, Part I – identifying the regime, the state, planning instruments and the bureaucracy

8.1 Identifying the Japanese regime: a preliminary outline

This section provides a first outline of the Japanese regime, which will be further evaluated in the sections which follow.

The Japanese regime consists of the Liberal Democratic Party (LDP), the bureaucracy of the economic ministries¹⁶ and the business community. They were bound together by their particular interests in the form of an accepted and overriding consensus to economic growth and development. For example, the LDP-business relationship was based on shared interests as the business sector valued a stable government that was tolerant of business interests as well as favouring economic growth and macroeconomic stability. As emphasised by Richardson, the business sector and their large business federations were the most important source of financial funding to the LDP, though from the 1980s onwards banks and other financial institutions accounted for nearly 50 percent of all business donations (1997, p.177, 180). Ikuta highlights, that the business sector could contribute in other ways to the LDP's electoral success, citing the example of the construction industry, which not only provided financial contributions but equally reliable support during elections in mobilising its five million workforce to vote for the LDP (1995, p.105).

¹⁶ Among them are Ministry of International Trade and Industry (MITI), Bank of Japan (BOJ) and the Ministry of Finance (MOF).

A crucial factor for the stability and endurance of the Japanese regime was the LDP's lengthy dominance of Japan's post-war party system. Indeed, this unique political framework formed a principal element of the Japanese regime and was of vital importance for the endurance of the Japanese regime. Even so, the LDP dominance and the stability of the Japanese regime also rested on the regime's ability to generate lasting economic development, an area where it proved exceptionally successful between the 1960 to late 1980s.

However, it would be erroneous in neglecting the vital role of the bureaucracy within the Japanese regime, as it not only provided another critical link within the regime, but it was imperative for formulating and implementing the regime's economic strategies. Thus, when identifying the links between the government and the economy, the analysis must take into consideration the significant role of the bureaucracy.

In characterising the influence of the bureaucracy within the Japanese regime with regard to the formulation and implementation of the regime's economic objectives, it can be argued that the bureaucracy occupies a predominant, yet not a determining, position within the Japanese regime. Two basic relationships are identifiable: the bureaucratic-business nexus and the bureaucratic-politician nexus. At the core of the bureaucracy's influence over the business-community relationship is a combination of statutory power including control and regulation activities. Nevertheless, a reciprocal relationship exists as the bureaucracy relies on business for information and on its cooperation in implementing specific policies. Equally, the bureaucracy also depends on the politicians to pass the legislative hurdle in the Diet. In this regard the ability of the

LDP to stay in power for such a long period did facilitate the bureaucracy-political nexus. Craig adds, that this long endurance of a one party rule also facilitated the bureaucratic task as a repeated power shift between different political parties would otherwise require a mechanism within the bureaucracy to handle such shifts of policy strategies (1975, p.18).

The long endurance of the LDP as the dominant political force, as Muramatsu and Kraus argue, made it unnecessary for the LDP, neither to penetrate the bureaucracy further than the very top ranks, nor arouse the need to purge bureaucrats who agree too strongly with a rival party, or a party which had been in power before (Muramatsu and Kraus, 1984, p.141). Muramatsu (1997, p.26) interprets the power struggle between bureaucrats and politicians as a 'positive sum' game, instead of a 'zero-sum' game.

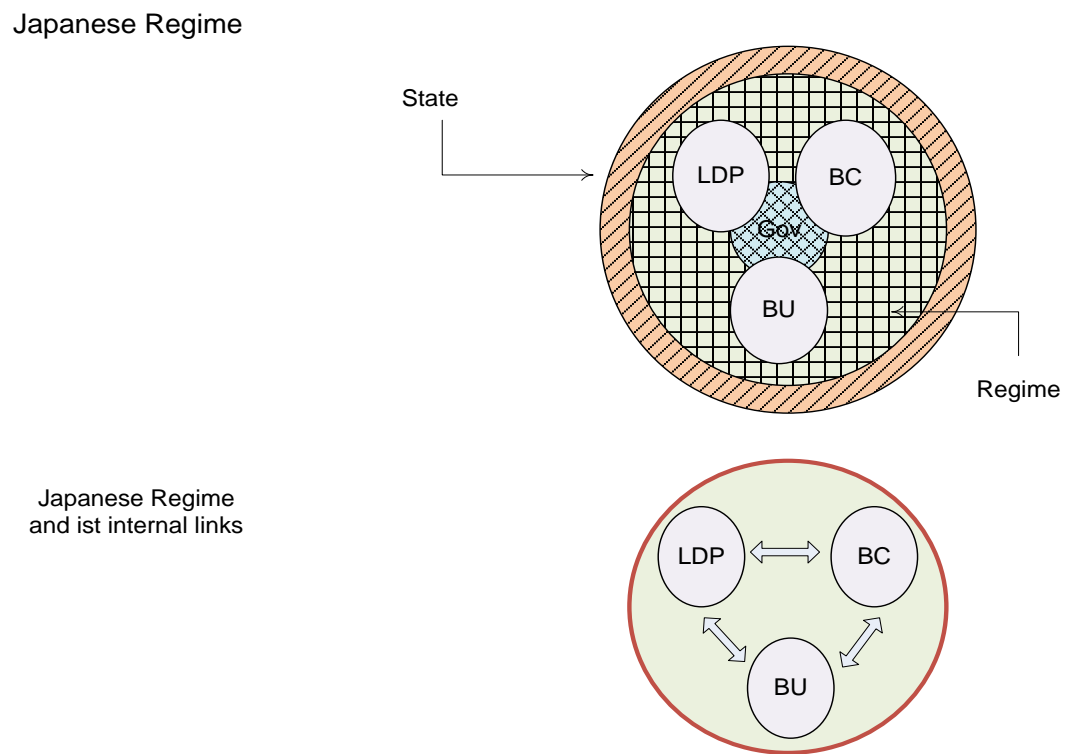
Schwarz provides a good description for the interdependence between the three pillars of the Japanese regime:

Conservative politicians rely on the campaign contributions of business, business people depend on the administrative ruling of the bureaucracy, and bureaucrats depend on the legislative authority of the ruling party (Schwarz, 1998, p.31).

This in turn added to the stability of the Japanese regime and even as we observed a recurrent re-shuffling within the government, the regime remained stable. A reminder on the argument presented in the theoretical section, that a regime is more permanent

that a government. Fig. 28 provides an illustration of the Japanese regime and its internal relationships, moreover it also indicates that the state provides the structural framework for a regime, and consequently for regime formation.

Figure 28 – The Japanese regime and its internal relationships (Ploberger, 2012, p.18)



LDP = Liberal Democratic Party / BC = Business Community / BU = Bureaucracy

However, it is vital to recognise that the Japanese regime did not exemplify a consensual entity. Dower notes, that the fierce brokering for power within the Japanese system presents an important feature of pre- and post-war Japan (1995, p.26). Gao also remarks that the system of the Japanese developmental state is full of conflicts, though

the economic actors have clashed more often over the means than over the goal itself (1997, p.295).

For example, in describing Japan's developmentalism, Gao (1997, pp.38-39) asserts, that it represents a specific example for the economics of industrialisation, how a latecomer to industrialisation can create national wealth in a dynamic process and in doing so directly acknowledging the inseparability of industrialisation and nationalism. This economic nationalism enabled a national consensus of catching up with advanced countries, as Murakami emphasises (1987, p.34). This national consensus did provide a strong consensus for the regime to work together and to overcome differences.

Yet, it is worth remembering, that this national consensus for development was also accepted within the Japanese society. This was also critical in facilitating a cooperative relationship between politics and business in providing a source for accepting the regime's objectives within the wider population.

In analysing the Japanese regime and outlining its internal relationships, again it is crucial to recognise the impact a particular national setting has as the state provides the structural environment for regime formation and regime development. This observation is especially true for Japan.



In addition to the political and economic sectors, an analysis must consider the society

as an important variable of any regime, at least in a way as it can influence the political sector via elections. Therefore, although not directly consulted in the ongoing process of decision-making within the Japanese regime, it is still of importance for the regime to receive, at least, a general acceptance of its strategic aims from the society. One can argue that as long as there is a consensus over the values between the regime and the society, and a regime performs well and meets the economic objectives set out then the society will perceive a regime as legitimate. Something the Japanese regime enjoyed for an extended period of time.

In describing the cooperative working relationship between the government and the business community as a specific feature of Japan's regime, greater detail of that relationship and the relevance of the bureaucracy within it will be outlined in the following sections. Developing a comprehensive understanding of the nature of the Japanese state will comprise the first task.

8.2 The nature of the Japanese state

Addressing the nature of the Japanese state is vital in analysing the Japanese regime. As examined in the theoretical section, the state not only provides the framework for a regime, but the nature of a state will significantly influence the development of a particular regime, by limiting the options available for regime development. Since a free-market approach would hardly be an option for a socialist state, to take one example.

Yet, the state-market relationship, the public policy profile and the existing political-economic institutional framework are determined by the specific regime we can identify with regard to particular cases.

At the very general level one can refer to two categories in describing the general state-economic relationship: 'top-down' and 'bottom-up' models. Whereas 'top-down' models emphasise the role of the state, 'bottom-up' approaches insist on a rather minimal role of the state, reflecting a more 'market-regulation' approach. Although such distinctions are helpful in determining the extent of state involvement in the development of the market and for society, it may distract our investigation from the political dynamic by overly stressing such particular distinctions, particularly as economic and social reality is to a large extent informed by a mix of private-public goods.¹⁷ Indeed, as emphasised by Evans, instead of debating the pros and cons of how much state intervention in economic affairs is expedient, it would be more appropriate to ask 'what kind' of state intervention would help to increase state performance (1995, pp.10-14).

The Japanese regime provides a prominent example of the problem of identifying the extent of state-market interference, which also informs the ongoing discussion on the nature of the Japanese state which is conservative in outlook. With regard to the nature of the Japanese state, Gao stresses, that the Japanese state focused less on the

¹⁷ Cerny highlights the importance of overcoming the rigid division between private and public, emphasising that politics always involves a mix of private goods, public goods, and a range of in-between categories, highlighting that semi-private goods (subsidies, tariff, support for research and development, regional assistance etc.) are particularly significant in the area of industrial policy issues. It is therefore crucial to recognise that politics involves a dynamic mix of market and government. Consequently, markets and hierarchies are not opposing principles of efficiency, but complementary ones, mutually reinforcing each other. See: Cerny (1990)

improvement of individual economic well-being, than of enhancing national power, replacing the economic man with the political man (1997, p.45). Moreover, Johnson states that ‘the Japanese have built their economic system on a sociological rather than an economic theory of the market’ (c1995, p.43).

Yet, one familiar and related discussion about the role of the Japanese state centres around the issue to what extent the Japanese state poses a challenge to Western style democracy and especially Anglo-Saxon style capitalism; one can distinguish three models of comparison: mainstream, revisionist, and culturalist.¹⁸ Though such an evaluation highlights differences but it may mislead us when investigating the occurrence of complex political change as the focus is on the dynamic of change within a particular regime; whereas the issue to what extent one system is similar or dissimilar from another system and to what extent they overlap comprises a different research focus. What’s more, in assessing the nature of the Japanese state, Reed claims, that there is a bias ‘to compare Japan only to the United State and a tendency to compare Japanese reality to Western ideals instead of Western realities’ (1993, p.6). He further assesses that ‘on many dimensions Japan is similar to Western European nations, though very

¹⁸ The revisionist approach states, that Japan functions according to its own principles, regarding it as undemocratic and characterise its economic system as strongly regulated by the state – i.e. state led – and as less open than the mainstream approach would suggest. Yet, the culturalist approach tries to explain the specifics of the Japanese state and its politics by emphasising the existing cultural differences. Kanji provides an example for a culturalist approach, arguing that Japanese statism has its roots in the traditional Japanese view that the whole nation is a family (1976, p.30). Another culturalist inspired notion, highlights the ability for cooperation and the readiness of neglecting the interests of either individuals or small groups for the sake of a group or a larger group as culturally originated (1998, p.17). Critical towards the overemphasis of culturalist interpretations, Wilks and Wright argue, that we have to take into consideration that history, tradition, and a specific social order exert influence on the nature of the Japanese state. However, interpreting the Japanese model exclusively based on cultural features would be misleading (Wilks and Wright, 1991, pp.23-4). Following the mainstream approach, Japan has a similar political, social and economic system as other functional liberal democracies. For an overview of these three approaches see Duncan McCargo (2000) *Contemporary Japan*, Introduction.

different from the United States' (1993, p.17). An assessment the author of this dissertation agrees with.

Another familiar discussion as to the role of the Japanese state relates to its role in economic development. Osamu points out, that one interpretation of Japan's post-war success rests on the thesis of a strong Japanese state, assuming that a carefully calculated, consistent policy on the part of the state underlined that success (1997, p.109). Alike Johnson argues, that a strong Japanese state is the sine qua non of Japan's economic success, describing 'Japanese capitalism' as a specific economic model (c1995, p.66). Wilks and Wright, describe the specific features of the Japanese state as: plan-rational; an explicit focus on industrial policy to sustain 'high-speed' economic growth; a general consensus on growth as part of an overarching set of goals for society; and the existence of a powerful bureaucracy (1991, p.37). A different explanation of the Japanese state is offered by another group of analysts.

For example Yamamura describes Japanese capitalism as 'bridled capitalism', consisting of policies and institutions guided by powerful elite groups, where a shared ideology of 'catching up' performs the role of a bridle (1996). Whereas Kanji emphasises that in the Japanese establishment, none of the influential groups – politicians, big business and bureaucracy - are supreme (1976, p.40). Equally Samuels describes the market intervention of the Japanese state as 'reciprocal consent', characterised as an interactive process of mutual accommodation between state and market, assuming that there exist no permanent balance of power between state and society (1987, pp.8-9).

These diverging approaches towards the Japanese state and the nature of market interference indicate that the academic community holds a range of assumptions in assessing the Japanese model. It is apparent that there is no consensus on the role the Japanese state plays in economic development as exemplified by the positions described above.

Kim notes, the appeal of the Japanese model is linked to the effort of policymakers to find an intermediate and functional model of state involvement in the economy, which, though relying on state intervention utilizes the market in encouraging saving, investment, and innovation (1995, p.510). Hall adds, the Japanese case poses a challenge to the conventional way we think about economic management, going beyond common dichotomies of ‘politics’ and ‘market’; ‘public sector’ and private sector’; and management by ‘markets’ and management by ‘hierarchies’. Instead, the Japanese model provides us with a specific example of a more or less joint management of economic activities, involving the ‘public’ and ‘private’ spheres (1995, pp.484-5). In a similar way, McVeigh suggests, that the Japanese case provides a genius example of the ability to balance state intervention and market forces (1998, p.119).

Clearly, the Japanese state is more interventionist as for example the American state, but actually closer in nature to Western European states like Germany. At the same time the Japanese state is also conservative and economic centred and thus not open to a socialist development path. We can also identify other specific characteristics of the Japanese state, such as economic nationalism. Pyle too, notes that a ‘strong political consensus supporting growth as the overriding national purpose served to mute political

conflict' and this underlined the cooperative working relationship between government and business (1996, p.251). The specific relevance of the Japanese state during the industrialisation process also reflects Johnson's description of the Japanese state as a late capitalist developmental state, characterised as 'plan-rational' and state guided and antithetical to a purely 'market-rational' model. Consequently, he argues, this not only points towards a specific industrialization process, but at the same time rejects a culturalist interpretation, based on 'creative Confucianism' as an equivalent of Weber's version of Protestantism (1995, pp.10-11). Gao also identifies further characteristics of the Japanese developmental state, among them: viewing the economy strategically, restraining excessive competition and rejecting profit motive in management (1997, p.14).

These various characterisations of the Japanese state impact on our understanding of how to evaluate the nature of the Japanese state and on analysing the dynamic of complex political change, and with it regime formation and regime change. Yet, to varying degrees these descriptions of the nature of the Japanese state refer to various aspects of the existing regime, like the underlining consensus of the regime in generating strong economic growth, as well as in setting particular goals for the economy and society to reach.

Yet as stated before, applying the concept of regime change will help us not only to reconcile these diverging views on the Japanese state, but also to further our understanding of the particularity of the Japanese regime. The following section on the

nature of the economic planning approach and the instruments employed will further clarify the role the regime played during Japan's exceptional economic development.

8.3 The regime's intervention into economic development: regime market interference, economic planning and its limitation

This section examines the planning instruments the Japanese regime employed to facilitate economic development. In doing so, it will provide an additional step in the process of identifying the character of the Japanese regime in forming a deeper understanding of this interrelated mechanism and how the regime implemented its strategic policies. In doing so it is necessary to evaluate the specific characteristics of economic planning.

Kanji highlights that the national economic plan is non-operational as the plan outlines only a general direction of public policy. These national economic plans often cover a five-year period, but instead of providing specific industrial, sectoral or regional targets, they only outline a basic policy framework, despite that each plan has a specific set of targets.¹⁹ This specific nature of the national economic plan can also be identified when

¹⁹ Examples are: Five-Year Plan for Economic Self-Support (1956-60); New Long Range Economic Plan – objectives: maximum growth; improvement of living standard, full employment (1958-62); National Income Doubling Plan (1961-70); Medium-Term Economic Plan – objectives: correction of disorder arising out of rapid economic growth (1964- 68); Economic and Social Development Plan – objectives: development toward a balanced and enriched economy and society (1967-71); New Economic and Social Development Plan – objectives: establishing a humane economy and society through balanced economic development (1970-75); Basic Economic and Social Plan – objectives: enhancement of civil welfare and international cooperation (1973-77). Source: Japan Economic Council *Economic Planning in*

analysing its constituent parts, as there is a focus on strategic policy objectives like the forecasting of a set of macroeconomic variables such as GNP, price levels, balance of payments, income distribution, and the projection of public investment (Kanji, 1976, p.71). McMillian refers to two basic types of Japanese economic planning, one is based on a Keynesian framework, and includes stabilization policies, using financial, monetary and commercial instruments in directing economic activities; whereas the second type differs and entails detailed long-term industry related goals for the entire economy (McMillian, 1996, p.97). Komiya notes that the national economic plan should be interpreted as a long-term forecast, rather than a rigid plan, which must be followed faithfully (c1990, p.281), adding, that the Japanese government showed its willingness to deflect from its national economic plan, if changes in economic development required this (1990c, p.284). Allen points out that the nature of the economic planning is best described as 'indicative' (1981, p.3). A description Murakami agrees with, in the assessment that the mode of planning is promotional, because it emphasises promotional measures – like financing, tax concessions, subsidies, R&D grants - over legal penalties (1987, p.46).

Still, the general economic plan does provide an overall framework, whereas more specific goals are outlined in the so called medium-term 'elevation plans' formulated by MITI's industrial bureaus, covering a two-to-three year period. These plans convert the basic framework of the national economic plan for each industry, thereby, translating the abstract aims of the national economic plan into specific targets for each industrial sector. These 'elevation plans' are developed in close consultation with the concerned

Japan (1969) and Japan, Economic Planning Agency, *The Basic Economic and Social Plan 1973-77* (1973); cited Signs: Ryutaro Komiya, 1990c, p. 270-3

industries; including representatives from the corporations that will have to implement them (Huber, 1994, p.6). This is another vital feature of the regime's planning approach. In this regard Kim observes that instead of suppressing entrepreneurial impulses within the private sector, these impulses were fostered in reaching the goals set by the economic planning process (1995, p.518), adding, that the Japanese experience provides us with a crucial example that state interventions can not only be functional, but also very effective (1995, p.539).

Taking into consideration the signals from the private sector for national economic planning reflects a specific Japanese approach. Samuels affirms that the Japanese state is a market-conforming player and its intervention usually reflects shifting market structures (1987, p.2). Murakami too highlights that Japan's post-war experience suggests that there can be an intermediate mode of intervention beyond either a strong regulatory or a laissez-fair system, instead applying the term of 'polyopoly', which characterises competitive producer markets, within a framework of entry restrictions and investment controls to ensure that there were only a few participants of similar size to prevent destructive competition (Murakami 1987, pp.54-5). Even so, it is of importance to recognise that the regime attempted to maintain the market competition at a certain level, yet at the same time tried to avoid excessive competition, which would scatter and waste capital. Hence, the Japanese regime restrained but did not reject market competition.

Moreover, the overall vision of the future industrial structure, as outlined in the five-year plans, comprised strategic objectives which are based on a realistic perspective of

anticipated market development. As noted by Allen, is not the extent but the purpose of interventions, which defines the performance of the Japanese system (1981, pp.39-40).

However, we have to recognise that there are built in limitations as to the scope of the planning. These limitations are based on the character of the plan itself, and the extent to which the entire economy is incorporated in national economic planning. Huber notes that the focus of the economic planning concentrates on what is called the 'strategic economy'. This refers to approximately two-hundred companies within the six major neo-zaibatsu/keiretsu and their affiliated client companies, the shitauke system, together numbering some 10.000 firms, which represents only a fraction of the Japanese economy that consists of approximately 1.7 million corporations and eleven million small businesses. Huber further emphasises that the government's method of intervention in the economy is characterised by setting ends, rather than to dictate means (Huber, 1994, pp.37-38).

In formulating the national economic plan two advisory councils are of importance. One is the cross section Industrial Structure Council (Sankashin), an administration attached to the Industrial Policy Bureau of the MITI; the other is the cabinet associated Economic Planning Agency (Keizai Kikaku-cho). Attached to the Economic Planning Agency is the Economic Council (Keizai Shingikai) with the responsibility of studying and deliberating long-term economic plans, and other important economic policies, upon request of the Prime Minister. Although the request of the Prime Minister implies a great deal about the direction of the plan, key ministries as MOF and MITI possess the power to intervene and change the content and direction of the plan (Kanji, 1976, pp.70-

71). Komiya also points to the Economic Planning Agency in identifying it as a crucial actor in the process of planning, in conjunction with the various ministries (c1990, p.280).

Although both the MITI and MOF are the two most influential ministries with a shared focus on building a strong economy, MITI's attention lies more with particular industrial sectors in shaping industrial policy, whereas MOF, which administers the national budget, has a more balanced view of the social requirements within Japan, as McMillian argues (1996, p.64). MITI's focus on industrial policy also mirrors its organisational structure: five general (horizontal) bureaus, which provide broad policy direction, across different industries, and three specific (vertical) industrial bureaus, specialised in one or several industries, for implementing government policies. MOF's influence on economic development and industrial policy attest to its ability to influence the capital supply and the cost of capital i.e. the allocation of investment funds. Despite that it was highly significant in the early post-war period, this particular influence declined over time, as Japanese business corporations increasingly succeeded during the late 1970s in developing their own financial resources and their ability to borrow from the international financial markets.

It is equally important to note, when considering long-term strategic economic development, that Japanese economic planning is characterised by a continual shift into higher value added production sectors, with a willingness to face up to both the recognition of comparative disadvantages of specific industrial structures and the related dislocation costs of uncompetitive industrial sectors (McMillian, 1996, pp.107-9).

Adding to the success of the regime's economic policy was its ability in fostering structural change through its industrial policy. Gao highlights, that Japanese developmentalism revealed a strong production orientation, indicating a novel perspective with regard to economic development, given that the standard approach emphasized the generation of comparative advantages with a focus on rich resources and cheap labour (1997, pp.44-45).

Wilks and Wright contend, that we have to distinguish between 'industrial rationalisation policy', where state intervention focuses on the detailed operation of individual enterprises in order to improve them and 'industrial structure policy', when fostering or abandoning specific industrial sectors (1991, pp.37-38). This distinction has its merits especially with regard to Japan's industrial policy, as Gao argues, because in contrast to classical economic theory which privileges the increase in economic welfare by free trade, Japanese economic strategy focuses on industrial policy to change its industrial structure to enhance economic welfare (1997, p.49). In this regard, Dosi et al. argue that Japanese policy decision makers focused on a Schumpeterian informed conception of economic growth, stressing the necessity for new products, processes and long term economic development, instead of price based competition (1989, p.19).

The strategy of promoting national competitiveness by continuously modernising and rationalising production technology and in the continual increase in productivity is in accordance with Porters' findings in his book 'The Competitive advantage of Nations' (1990), where he identifies productivity as the prime determinant in the long run of a nation's standard of living. Once again we are reminded of the crucial relevance of a

particular structural environment for national development, of which a regime forms one part.

In this regard, it is of importance to recognize, as Uriu asserts, that ‘the diversity of industries under MITI’s jurisdiction suggests that its organizational stake in preserving any particular industry will be low’ (1996, p.34). Consequently, MITI is more able to respond positively to market changes and, if necessary, to move from one industrial sector to another when responding to changes in global competition. MITI’s influence is, as Uriu argues, based on its jurisdiction over virtually every manufacturing industry and it enjoys a broad mandate to oversee the industrial policy process in general (1996, p.23). Murakami highlights that MITI’s investment guidance and its recession cartels were particularly successful instruments in avoiding excessive market competition (1987, p.49). Thus, it can be argued that with regard to economic planning, MITI has two basic functions: policy formulation and policy implication.

So far, the discussion has focused on the planning activities, but of similar importance are the methods of implementing the set targets and the strategic direction.

Huber identifies three modes of implementation: direct instructions to industrial institutions regarding strategic objectives; orchestration of the flow of major funds, and funnelling the flow of certain materials (1994, pp.10-12). McVeigh points out that there are three main levels of implementation applied by Japan’s regime. The first level concerns the overall planning, and the formulation of the grand strategy. This level encompasses the goal setting organs, MITI’s Bureaus of Industrial Policy and other

major organisations, as mentioned above. The next level consists of, what he calls, the 'mediating levels of implementation'. This level is of utmost importance to realise the goal of the grand strategy. In this regard, the keiretsus, which connect the companies vertically and horizontally,²⁰ are critical. In addition, industrial associations are also of relevance at this level, as they can shape the strategic planning itself. At the third level of Japan's economic system, we can observe the individual companies and businesses, performing the tactical and practical activities (McVeigh, 1998, pp.120-1).

MITI use industrial associations and neo-zaibatsu/keiretsu differently. However, we have to be aware that neo-zaibatsu/keiretsu and industrial associations inherit different structural characteristics. Whereas the neo-zaibatsu/keiretsu stretches across industries, industrial associations are organised within one industry.

As to the nature of neo-zaibatsu/keiretsu, Huber notes, that each consists of several companies in major industrial categories as banking, heavy industry, steel, and construction for example, characterising it as industrial task groups of twenty to forty companies, which compete with each other (1994, p.11). McMillan argues that, Japan's keiretsus not only provided the long-term horizons and financial muscle to reach global markets, but the inherent subcontracting system also provided entrepreneurial flexibility and adaptiveness in meeting changing market conditions (1996, p.79).

²⁰ Within the keiretsu structure we can distinguish between three basic organisations structures: 'Horizontal keiretsu', comprised of several dozen members including a main bank, larger financial institutions, large manufacturing and trading firms; 'Vertical Keiretsu', providing efficient, long-term reciprocal – which is sometimes debated – benefits for a parent company and its suppliers, including coordination of planning and investment, sharing of technology and information, and flexibility throughout the business cycles; 'Distribution Keiretsu', allow manufactures to control the mass marketing of products, allowed manufactures to prevent price competition among retailer and therefore to maintain high profit in the domestic market. See Pyle, 1996, p. 250.

There are two additional characteristics within the neo-zaibatsu/keiretsu structure, which have to be taken into consideration: the first considers the position a neo-zaibatsu bank holds within the broader neo-zaibatsu/keiretsu structure, the second feature focuses on the cross-shareholding among the corporation members within a neo-zaibatsu/keiretsu. Huber observes, since a neo-zaibatsu/keiretsu bank exercises major influence and responsibility over the performance of other corporation members and provides assistance and guidance if one of them faces serious problems, a main bank within the neo-zaibatsu/keiretsu synergy resembles a kind of mini-MITI and mini BOJ (1994, p.37). Huber further observes that the cross-shareholding among the neo-zaibatsu/keiretsu member corporations guarantee mutual interest within a neo-zaibatsu/keiretsu group as its members refrain from extracting profit from each other, ensuring that there is a principle of ‘non-conflictive rivalry’ at work (1994, p.36).

Yet, performance at the corporation level is guaranteed by competition in pursuing strategic objectives – outlined in MITI’s plans – and over positive incentives provided by MITI and MOF, therefore, they guarantee performance at the corporation level without direct government interference (Huber, 1994, pp.31-2).

Even so, this subcontracting system (shitaue) also attracts a great deal of attention and criticism as it indicates a form of long-term cooperation between the main manufacturers and sub-companies. The criticism is linked to a perceived exploitation of the sub-contractor by the parent firm as this possesses the overwhelming bargaining power and therefore could exploit the sub-constructor as a buffer during harsh economic situations. In addition, especially from an international perspective, the shitaue-system

was also identified as a means of excluding foreign companies from the Japanese market. Yet, Murakami maintains that if product markets are competitive, then the shitaude system should be interpreted as an outcome of rational choice in sharing economic risks. Further highlighting that it also provides an effective mechanism of technology transfer from a parent firm to its subcontractors (1987, p.53). Similarly, McMillan identifies additional positive features by emphasising that it provided an important source of flexibility and for innovations in the Japanese economy (1996, 74).

However, as to direct instructions, MOF and BOJ also play an important role in providing financial resources in the form of capital, competitive credit rates and tax reductions for strategic business.

Regarding direct instructions, it is possible to identify specific elements of Japan's economic system, as the neo-zaibatsu compete over implementing MITI's objectives - for example raising the quality, lowering costs and is characterized by competition of execution, thereby privileging creative competition over a destructive competition, i.e. obstructing each other (Huber, 1994, p.35). Neo-zeibatsu actually competes for, what Murakami describes as, promotional measures, provided by MITI and MOF. Examples encompass bank loans, tax incentives and trade protection. However, an important example for such promotional measures is the Fiscal Investments and Loan Program. Through this program, as Sugimoto notes, policy-makers provide financial support, in using postal savings funds, for selected areas of development (1997, p.202). Murakami identifies the Japanese industrial policy as a successful example in combining the two conflicting principles of competition and intervention, describing it as

compartmentalised competition, characterised by fierce competition but within a broader strategic framework. He also points out that Japanese industrial policy consists of four practises: promotional measures and license control; entry control, investment guidance and recession cartels (Murakami, 1987, pp.49-51).

The Japanese regime is not alone in using positive inducements such as industrial loans, subsidies or R&D support, indeed this reflects a broad practice of most states. However, as McMillian notes, what distinguishes the Japanese approach is, that the use of such positive inducements are clearly understood for a given ends; to develop an internationally competitive industrial structure (1996, p.98). Referring to the specific Japanese planning approach, Murakami argues that a weak guidance hypothesis provides a much better explanation than a strong regulation hypothesis (1987, p.51), therefore acknowledging the in-built limitations within Japanese planning.



The discussion over the extent and influence of the Japanese planning system in steering the economy in a particular direction, and in upgrading its performance in the context of global competition is linked to the evaluation of the Japanese bureaucracy's influence/control over this planning system and in implementing the set targets. It should be remembered that outlining strategic aims is one thing, while influencing the direction of economic development is another. Therefore, we have to analyse the specific strategies of the Japanese regime and the bureaucracy, as part of that regime, which are employed to steer the economy in the desired direction. The following section

will focus in more detail on the role of the bureaucracy within the Japanese regime and its influence on economic development.

8.4 The influence and limitations of the bureaucracy

The discussion will focus initially on the bureaucratic role within the Japanese regime as it facilitates not only the information exchange between the different parts of the regime, but is also involved in the formulation and implementation of the regime's goals. Thus, it plays a vital part in strategy formulation and implementation of the strategic economic plans of the regime.

Even so, it is equally crucial to recognise the limitation of bureaucratic influence in formulating the economic strategy as the bureaucratic-politics nexus is also characterised by complex relationships that are not open to a straightforward assessment of who is the prevailing actor. Nonetheless, both the bureaucratic-business and bureaucratic-politics linkage each constitutes a vital aspect of the Japanese regime.

8.4.1 The bureaucratic-business nexus

Concerning the bureaucrat-business relationship, Sugimoto identifies three specific features: the first, refers to its wide range of control and regulation activities; the second identifies specific links between the bureaucracy and the business world, exemplified by what is known as amakudari (the employment of retired ex-bureaucrats); whereas the

third refers to the practices of administrative guidance (*gyosei shido*), institutionalised but amorphous practices, whereas a ministry provides advice, suggestions, instructions, and warnings to business federations and individual businesses (1997, p.195-7).

However, to facilitate the cooperation between the business community and the bureaucracy, it was of utmost importance that Japanese businesses were organised in a way to assist this task. At the top of the business organisations, we can identify the following nationwide economic organisations, referred to as the *zaikai* organisations: Keidanren, the Federation of Economic Organisations, encompassing nearly all big business groups; Nikkeiren, which focus on wage negotiation with organised labour and the Japanese Chamber of Commerce and Industry, as the voice of the small business interests.

Uiru points towards the significance of these organisations as industry actors seek to influence policy-making not only through their direct interactions with the bureaucrats that oversee them, but also through industrial organisations. Hence, industry organisations provide a forum for formulating an intra-industry consensus, and enable the industry to speak with a unified voice, enhancing industrial negotiating and information power, in dealing with the bureaucracy and with politicians (1996, pp.25-26). Similarly, Hall argues that these specific organisations not only provide the government and the bureaucracy with viable interlocutors, which they consult with, but also aid policy implementation (1995, p.493).

What's more, the bureaucracy's authoritative power over the business community becomes more evident in issues like project-approving, licensing, and credit-granting. In particular, the provision of financial incentives constitutes a critical source of power for the bureaucracy. Nester describes this process in the following way: after extensive consultation with MITI and MOF the Bank of Japan would provide a loan to a city bank, which then would provide money to a designated industry (1991, p.34).

However, regarding the formulation of particular economic targets and an industrial growth strategy, Allen, argues 'that the strategy of industrial growth has been worked out by large firms and the bureaucracy in conjunction' (1981, p.32) and Hall adds, as public officials had very little power to dictate a particular economic strategy, they were therefore interested to formulate a joint strategy in cooperation with the business community (1995, p.492). This in turn highlights the considerable influence business had in the formulation of economic strategies.

Hence, it becomes apparent that the bureaucratic-business nexus enables not only the bureaucratic influence over the business community, but also enhances the business communities' influence over the bureaucracy. Consequently, it is justifiable to identify a mutual process of influence and two additional aspects of the bureaucracy-business relationship - amakudari (employment of retired bureaucrats by business) and administrative guidance – that further inform such an interpretation of this relationship.

With respect to amakudari, it is possible to observe several important aspects as to why businesses are willing to employ retired bureaucrats: these officials are capable men

with great experience; some firms may owe these officials favours, which have to be repaid; former bureaucrats are intimately familiar with all elements of project approval and licensing procedures in a specific ministry and they also know influential officials in their ministries (Kanji, 1976, p.46). Yet, the re-employment of former bureaucrats within corporations not only facilitated the access these corporations have to specific ministries, but, on a general level, it also enhanced the influence of the bureaucracy within the business community as well.

Another important feature, which characterised the bureaucracy-business linkage and provided the bureaucracy with influence over the business community is administrative guidance. Kanji adds, that administrative guidance presents a 'unique Japanese practice, according to which government officials or agencies guide industries and firms in desired directions by informal means and without specific statutory authority' (1976, p.48). Shino points out that administrative guidance refers to administrative actions taken by administrative organs without legally binding force, adding that administrative guidance not only encompasses all areas of the administration that is frequently practised, but that it seems to have achieved considerable results (1984, pp.204-7).

Schwarz stresses that the willingness of the business community to accept administrative guidance, despite that it has no legally binding authority, derives from long-standing business-government relationships, the respect for bureaucrats and the prospect of sanctions. However, he adds, that there are limits to administrative guidance and that it is rarely imposed on a recalcitrant private sector (Schwarz, 1998, p.27). Although, the prospect of sanctions, based on the regulatory and authorisation power of

the bureaucracy, provides high incentives for business to accept administrative guidance, Sugimoto argues, that bureaucratic instructions often reflect a previously reached agreement with business representatives (1997, p.197).

This requirement for cooperation between the bureaucracy and the business community not only suggests a preferred Japanese approach - reaching a consensus which is acceptable to the involved parties through informal negotiations - but also indicates the limitation of administrative guidance. This limitation is illustrated by Shino who stresses that administrative guidance can only be implemented when the cooperation and agreement of other parties are already obtained in advance (1984, p.205).

Therefore, it would not be wrong to argue, that industry actors and the above mentioned peak organisations produce a visible impact on the policy formulation process. Wilks and Wright, note with reference to Samuel, that ‘the bureaucracy does not dominate; it does not lead, it negotiates and furthers the relationship between the bureaucrats and the firms which are based upon what is described as ‘reciprocal consent’, insisting that this should not be interpreted as consensus (1991, p.44). Uriu identifies another aspect in the bureaucratic-business relationship, as one can detect a strong desire from the bureaucracy to avoid the politicisation of a subject, which in turn increases the bureaucrats willingness to cooperate with the business world (1996, pp.33-4).

Even so, it should not be overlooked, that the specific relationship of top bureaucrats with leading politicians also enhanced the bureaucratic position in its dealings with the business community. Yet, although identifying the distribution of power in the

bureaucratic-political nexus is challenging, the long reign of the LDP was critical in that relationship and for the regime itself.

8.4.2 The bureaucratic-politician nexus

The specific nature of the relationship between bureaucrats and politicians has attracted considerable attention. According to Aberbach et al (1981, p.193) it is possible to identify, at least for analytical purposes, four possible variations, described as ‘images’. *Image I*, describes the relationship as politicians make the policy decisions, whereas civil servants administer and merely implement these policies. *Image II*, assumes that both politicians and civil servants participate in policy making, yet each of them make distinctive contributions – with civil servants contributing neutral expertise and politicians contributing political sensitivity. *Image III*, presumes that both bureaucrats and politicians engage in policy making, and both are concerned with politics; and *Image IV*, blurs the distinction between the roles of politicians and bureaucrats completely, by suggesting a process of ‘politicization of the bureaucracy’ and a ‘bureaucratization of politics’.

Although the four ‘images’ are helpful in describing the relationship of bureaucrats and politicians, one obvious point is that the legislative processes restrain the bureaucratic influence, as they ‘have no choice but to depend on politicians to propose and pass bills on their behalf’ (Schwarz, 1998, p.22). Even so, it can be argued that politicians have a limited influence within the legislation process. The argument provided is that the influence of the bureaucracy is especially noticeable regarding the contents of bills

submitted to the Diet, because it is the bureaucracy, which 'draft, formulate, and finalize an overwhelming majority of bills' (Sugimoto, 1997, p.200). For that reason, as Koh argues, the bureaucrats virtually hold a monopoly on bill drafting (1989, p.205). Consequently, the influence of the bureaucracy is still identifiable in the legislative process.

However, Schwarz remind us, that a lack of meaningful Diet involvement in policymaking does not lead to a lack of participation by the ruling-party, as ministry officials have to consult with the LDP at every stage of the policy formulation and policy making process, suggesting that bureaucrats maintain their degree of autonomy as long as they cooperate with the LDP and remain within the bounds of accepted conservative politics (Schwarz, 1998, p.23). Uriu also emphasises that bureaucrats act within the broad policy parameters set by the LDP, thereby highlighting the restrictions the bureaucrats have to deal with (1996, p.30). A similar argument is presented by Muramatsu, when he interprets the bureaucrats behaviour as an anticipated reaction, thus acknowledging the influence of politicians in promoting certain public policies, especially involving new projects, over other public policies (1997, p.17). However, as Calder argues, as to routine administrative matters, the bureaucrats do generally rule in Japan (1993, p.66).

It should be acknowledged that the bureaucracy constitutes a crucial source for providing the information required in deciding on specific policy strategies, not least because of its relationship with the business community. However, with regard to the

bureaucracy's powerful position as a source of policy information, the development of what is called 'zoku-parliamentarians' is of significance.

Zoku politicians refer to parliamentarians with a special interest in a particular policy subject. Based on their knowledge, they rival the bureaucrats in the possession of relevant information in their specific policy subjects to the extent that they increasingly shape the policy formulation process. For Koh, the rising capability of zoku diet members to influence the policy-making process is the single most important indicator of a shift in the balance of power within Japan's policy-making process (1989, p.212). Challenging the bureaucrats control over information and technical expertise, on which the LDP depended when formulating and deciding on specific policy subjects. Another important actor in rivalling the bureaucrat's influence in the policy formulation process is the LDP's Policy Affairs Research Council (PARC).

However, several features underline the diverging perceptions of bureaucrats and politicians, including specific interests of politicians in their desire to be re-elected and in representing particular interest groups. Yet, it is noteworthy that ideological differences provide a limited source of conflict between the bureaucrats and the politicians. This is due to the position of power of a single political party over a lengthy period of time and the internal stability of the Japanese regime.

Even after evaluating both linkages - bureaucratic-business and bureaucratic-politics - another aspect of the influence the bureaucracy had within the Japanese regime is linked to the acceptance it enjoyed for a long period within the Japanese society. Transcending

the legal authority of Japan's bureaucracy, it should be noted that, traditionally, the bureaucracy was highly respected because of the perceived competence and dedication of the civil servants.

8.4.3 The bureaucrats' status within Japanese society

With regard to the wider influence the bureaucracy wields Najita (1974) (cited in Muramatsu, 1997, p.13) emphasises that Japanese society has a tradition, of what he calls, bureaucratism: described as the ethos of an elite, which stresses practical efficiency, functional specialisation and dependence on fixed laws. Transcending the legal authority of Japan's bureaucracy, it should be noted that, traditionally, the bureaucracy was highly respected because of the perceived competence and as it was viewed by the public as a dedicated institution. What's more, for many Japanese 'policy formulation is a job for bureaucrats, not ordinary citizens' (McVeigh, 1998, p.84). Johnson highlights, that the goals of the society are set by its elite bureaucracy (c1995, p.46), and Kim adds, that 'Japan's primary concerns was to construct a bureaucratic system that could integrate state and society in an organisationally oriented mode' (1995, p.526).

This respect towards the bureaucracy is linked to the fundamental role played in Japan's remarkable economic and political transformation towards a modern economy and polity, and it is argued that the skilful economic management of its bureaucracy performed an invaluable contribution (Kim, 1995, p.506). In evaluating the authority the bureaucracy wields within the Japanese state, Wilks and Wright point out that the

bureaucracy provides both a structure for the Japanese government and a normative model for all its administrations (1991, p.33).

Yet, the above mentioned positive attitudes towards the bureaucracy changed, at least since the early 1990s. Still, it is vital to recognise the respect the bureaucrats wielded within the Japanese society and the crucial, although not dominant, influence it held within the Japanese regime. Nonetheless, it would be wrong to assume that the bureaucracy possesses an unchallenged position of power, since there are obvious limitations to such a position, as both the business community and politicians limit the bureaucracy's influence.

With regard to the political sector, the dominant position of a single party in Japan's political system and with regard to the stability of the Japanese regime this allowed it forms a significant feature.



Nonetheless, it would be wrong to assume that the bureaucracy possesses an unchallenged position of power, since there are obvious limitations to such a position, as both the business community and politicians limit the bureaucracy's influence. With regard to the political sector, the dominant position of a single party in Japan's political system is an integral feature of the stability of the Japanese regime.

Chapter 9 - The underlining features of the Japanese regime – Part II the political system and party politics

In analysing Japan's party politics from the early 1960s onwards, the Liberal Democratic Party's (LDP) dominance stands out and is a crucial factor in the stability of the Japanese regime. However, there are several factors, which have to be taken into account when analysing the LDP's political success, among them the remarkable ability of the LDP to respond to fundamental social change; a fierce competition within the opposition camp, and an inability of the opposition parties to form an anti-LDP coalition at the national level, and an electorate that was not always clear in its messages to the political elite that is apparent upon assessing considering voting behaviour in this period

Before focusing on the LDP's ability to stay in power for such a long period, some important issues in analysing Japanese party politics need to be addressed, such as the debate of applying macro-analytical or micro-analytical approaches. This controversy centres on the extent to which cultural, historical and socio-ideological aspects are of importance in analysing contemporary Japanese politics.

9.1 Analysing Japanese party politics: macro-analytical approaches versus micro-analytical approaches

Although a specific cultural heritage and historical legacy influences and shape political developments in every country, however, there is an over-eagerness in the case of Japan to focus on cultural explanations when analysing Japanese party politics and its political system.

Kohno refers to three conventional views for analysing Japanese politics: the political-culture approach, that emphasises the cultural features of the Japanese political system; the historical approach which stresses the enduring legacy and ‘lessons’ learned from past experiences and the socio-ideological approach, which stresses social and ideological features in describing Japanese politics (1997, pp.7-8). Yet, he argues that all three approaches possess inherent shortcomings, as Japanese voters, politicians and Japan’s political parties are described as prisoners of the underlying cultural and historical background and the existing socio-ideological structures; thereby missing the impact of conscious choices made by individual rational actors (Kohno, 1997, p.9). Consequently, he strongly criticises what he calls the ‘conventional view’ of Japanese party politics, as it ignores developments at the micro-analytical level, which interprets political phenomena as products of conscious choices made by rational actors, based on their strategic aims, like being re-elected, implementing their specific political program, etc. (Kohno, 1997, pp.10-12).

When describing Japanese post-war politics, Richardson suggests it is possible to apply two basic images. One is the ‘vertical-integrative model’, characterising Japanese politics as highly centralised, with the bureaucracy as the dominating force behind policy formulation. The other is the ‘horizontal-fragmented’ model, pointing towards a

multipolar system where parties, interest groups, and the government contest issues, where governance is decentralised and policies are formulated by temporary coalitions. For Richardson the later model accurately describes Japanese post-war politics, to the extent that Japanese politics was far more conflictual as generally assumed, despite a strong tendency to restrain conflict (1974, pp.2-3). Kohno on the other hand speaks of three historical stages when analysing Japanese post-war party politics. The first stage, from 1945 to 1955, represented a typical multiparty system; the second stage, from 1955 to 1993, saw the multiparty framework replaced by the dominance of the LDP and the third stage, since the early 1990s, is characterised by the deterioration of the conservative regime (1997, pp.5-6).

This evaluation reminds us of the relevance of understanding the structure-agency dynamic as evaluated in the theoretical section as both, as the historical and socio-ideological approach refer to a particular structural environment and are guilty of overemphasising a particular structural environment while neglecting the capacity of agency. Thus Kohno's criticism of what he describes as the 'conventional view' is consistent with the argument presented in the theoretical section on the structure-agency dynamic, that their relationship is indeed a dynamic one, in which strategically acting actors behave in the context of a particular structural environment. Hence, agency is not a prisoner of a particular cultural or historical heritage.

Hence, without denying the impact a particular structural environment has on agency behaviour, it would be wrong to overlook the capacity of agency to act, therefore we should appreciate the dynamic nature of the interaction between structure and agency.

Thus, as outlined in the theoretical section, a particular structural environment does not determine agency responses; indeed it rather informs agency behaviour in a dialectic fashion by providing a strategic environment in the form of guidelines for future actions.

For the research on the Japanese regime, the second and third stages are of importance, yet it is also significant to recognise the multiparty character of the first period, because it clearly indicates that a one party rule did not constitute a pre-eminent form of political constellation in Japan's post-war party politics.

9.2 Japanese Party Politics from the early 1960s to the mid-1990s: A story of one party dominance and a fragmented opposition

Since the dominant role of the LDP within Japanese party politics represents not only a constant characteristic of Japan's political landscape for over three decades, but equally a vital pillar of the Japanese political-bureaucratic-business regime, developing an insight into Japanese party politics and the internal dynamics of the LDP is essential when attempting to identify the complex political change and the impact it had on the Japanese regime.

9.2.1 The cornerstone of the Japanese regime: the LDP dominance

The newly formed LDP (15 November 1955) became the cornerstone of political power

in Japanese party politics. Though it should be remembered that at that time this new alliance within the conservative political camp, was simply another alignment with Japan's political parties, and was not interpreted as something exceptional.

Although the LDP managed successfully to stay in power over a period of thirty-eight years, there have been serious conflicts within the LDP, and challenges to its leading role in Japanese party politics. Hence, it is vital to remember that this period was far more conflictual than normally assumed and the LDP's ability to adapt and respond to social challenges was an important factor when evaluating its dominant role in Japanese politics during that period, as was the weakness and disunity of the opposition camp.

Even so, two exemptions to the LDP dominance are identifiable, when the LDP lost its majority in both houses of the parliament, in 1976 and 1979. This led, as Stockwin suggests, to a situation in which the LDP lost control of a number of parliamentary committees in the period from 1976 to 1980 in the House of Representatives (HoR), whereas a similar situation arose in the House of Council (HoC) from 1974 to 1980 (1992, p.119).

However, with the beginning of the 1980s it became increasingly clear that, as Curtis affirms, Japanese politics had entered a new phase, characterised by a resurgence of support for the LDP. After the 1986 election, the LDP found itself not only in command of a large Diet majority, but it also faced an opposition that was almost demoralised (1988, pp.35-6). Yet, in 1988 another corruption scandal erupted (the Recruit scandal)

resulting not only in an immense setback for the LDP, but it also lead to the resignation of the then Prime Minister Takeshita.

Curtis for example argues that one can identify three phases of the LDP's dominance: The *first phase*, characterised by a two-party ideological polarisation, lasted until the mid-sixties. Throughout the *second phase*, which covers the early to late seventies, political stability was based on competition between multiple parties. It was a time when the LDP experienced a decline in its electoral performance, but also one of an increasingly fragmented opposition (Curtis, 1988, pp.16-19). The *third phase*, from the end of the seventies to the eighties, saw a resurgence of LDP support where the LDP not only commanded a large Diet majority, but also encountered an opposition, which was more or less de-moralised (Curtis, 1988, pp.35-36).

With regard to the LDP dominance in Japanese party politics, Johnson indicates that it may have not been as stable as its reputation, as in several general elections between the 1970s and 1983, the opposition together won more support than the LDP (2000, p.175). The data in Figure 29 clearly validates his interpretation.

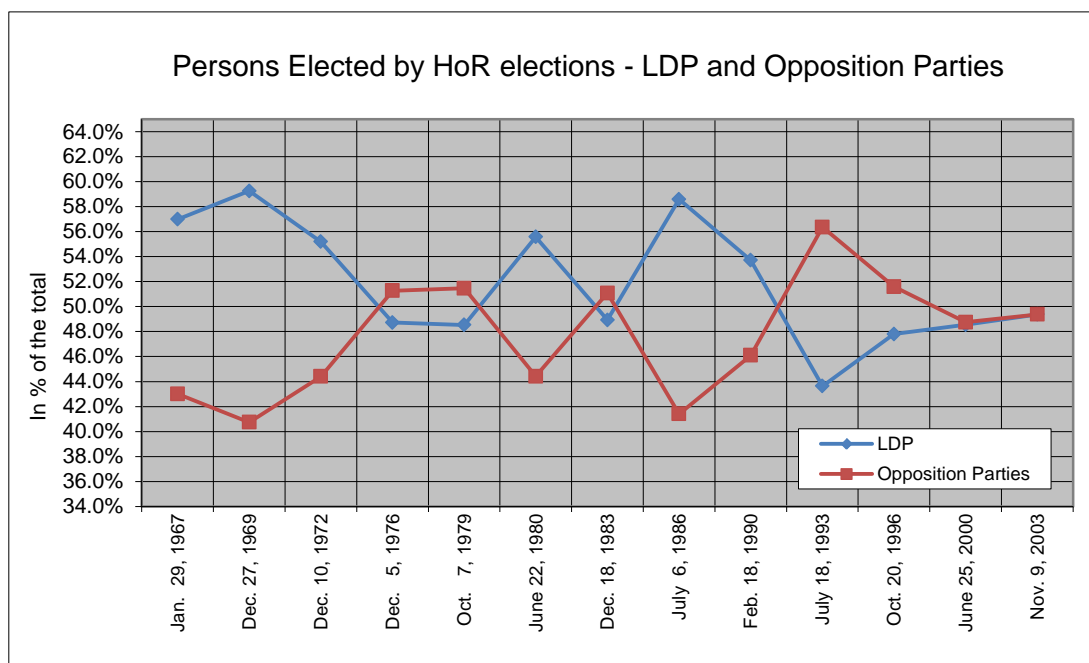


Figure 29 - Persons Elected by HoR elections - LDP and Opposition Parties (%)

Source: Derived from various editions of the Japanese Statistical Yearbook (2007)

The 1989 House of Councillor election delivered a blow to the dominant position of the LDP, because, for the first time since its existence, it had to accept a minority position as it managed to win only 109 out of 252 seats. However, the LDP managed to hold on to a healthy majority in the February 1990 House of Representative election, despite losing seats. Still, it was not before 1993 that the LDP lost its dominant position. Even in 1993, the LDP remained the largest party in Parliament, in both the upper and lower house, yet it failed to prevent other parties from forming a non-LDP coalition.

This fall from power reflected the incapability of the Miyazawa government not only of holding together the competing interests and factions within the party, but also its inability of addressing the issue of political reforms in a satisfactory manner, namely a reform of the electoral system. However, until this latest crisis, which led to the breakup

of its biggest faction and the subsequent end of the LDP rule in 1993, the LDP leaders did manage to hold the party together and to preserve its ruling power.

When evaluating the internal challenges the LDP faced during its long reign in power Richardson identifies a series of crises, starting with Prime Ministers Kishi's hard line leadership in the 1960s, which led to the worst post-war public demonstration, that was linked to the renewing of the U.S. – Japan Security Treaty; then the criticism of Prime Minister Tanaka's involvement in multiple corruption scandals in 1974; the cabinet defections during Prime Minister Miki's stay in power in 1976; the disputes over Prime Minister Ohira's leadership between 1979 and 1980; and intra-party tensions over the Recruit and other scandals in the late 1980s and early 1990s (1997, pp.76-77).

This too reminds us that even the internal coherence of the LDP was less strong than one may assume, which suggests that the LDP dominance may have been less evident a retrospective observation would suggest, as there have been dynamic and ongoing processes where the LDP had to ensure that it would not lose its dominant position in Japanese party politics.



Yet, the question remains how was it possible for the LDP to stay in power for such a long period, despite being confronted by a series of political, economic and social challenges. Among the factors we can identify are a fragmented opposition with strong inter-opposition competition, the LDP's ability to keep up with social change, and the

critical role of factions within the LDP. Another crucial feature was that the Japanese electorate reflected a conservative character; conservative in a sense that it resisted fundamental changes (Hrebienar, 1992, p.22).

Consequently, the following two sections will address issues related to dynamics within the LDP and its ability to keep up with the social change during its long reign in power, before we turn towards an analysis of the opposition parties' behaviour.

9.2.2 Factions: the operational units of the LDP

When addressing factionalism within Japanese party politics, we are presented with a recurring argument, that factionalism is founded in 'indigenous Japanese clientelism based on the value of personal trust and "long-term commitment" between leader and followers' (Kohno, 1997, p.96). As such factionalism is also often portrayed as a modern expression of the traditional Japanese patron-client relationship, the oyabun-kobun (Richardson and Flanagan, 1984, p.102; cited in Kohno, 1997, p.96). However, both arguments suggest a cultural interpretation of factionalism in Japanese politics, and with it an emphasis of a rather structuralist explanation of political dynamics.

Though, there existed an agreement between the eight factions (habatsu), which emerged within the LDP by the end of 1957, they were a manifestation of the fellowship of eight powerful LDP leaders.

However, and especially observer who focus on Japanese party politics are less inclined to stress a cultural approach for investigating Japanese politics, and indeed identifying structural and functional aspects as the underline rationale for the persistent influence of factions in Japanese politics. As pointed out by Ramseyer and Rosenbluth, 'LDP party members join factions out of self-interests' (1993, p.59) consequently denoting rational behaviour of political actors.

One pivotal structural condition, which had a fundamental impact on Japan's political landscape, is Japan's election law, which enforced the continued relevance of factions within the LDP. A major characteristic of the law was the single-non-transferable vote; votes within the same party could not be transferred between candidates of the same party. Yet, to win a majority in the House of Representatives the LDP had to run more than one candidate in each electoral district. This led to a structural problem for the LDP, or any other mass party that intended to send as many candidates as possible into the electoral race in all of the 130 electoral districts, as the party was unable to sponsor one party candidate against another in a single constituency.

Hence, factions provided a way for the LDP to overcome this structural dilemma and to run enough candidates to win a majority in the House of Representatives. What's more, it was factions, rather than the party itself, which financed individual candidates. This is why Kohno, Ramseyer and Rosenbluth, amongst others, argue that the continuation of factions is based on the electoral system and the electoral needs of the LDP (Kohno, 1997, pp.103-4; Ramseyer and Rosenbluth, 1993, p.59). Furthermore, these structural incentives also influenced the number of factions within the LDP: As long as there are

districts with as many as five representatives, there will be an incentive for at least five factions within the LDP (Ramseyer and Rosenbluth, 1993, p.75).

However, there are two additional functional aspects of factionalism, particularly within the LDP: one is the role the factions play in the LDP's party president election, the other is the rewards offered to individual rank and file members, as membership of a faction significantly increases the electoral potential of lower ranking LDP members. During the party president election, the various factions and, in particular, their leaders compete for influence to build up a majority to win the presidency. To win the LDP presidency also meant, at least during the LDP's hold on power, to become the next prime minister of Japan. However, to win the presidency was one matter, to hold on to it quite another, because the competition for influential positions within the party and the government was very strong. As pointed out by Kohno, since 'no faction had a majority within the party, no LDP president was expected to remain in that position indefinitely' (1997, p.112).

Consequently, the period of time that each prime minister managed to hold on to his position, was not so much a concern of voters, as a concern of factional competition and factional dynamics, because they decided when a party president had to step down (Richardson, 1997, p.67). Thus, the frequent reshuffling of the cabinet and the short cabinet tenure, with an average of one year in office, during the LDP hold on power, illustrates the crucial significance of the internal party dynamic. Yet, although it would be misleading to interpret the frequent cabinet turnover as political instability, it still

reminds us that the seeming coherence and consistency of one part of the regime was actually less strong than it seemed.

Though, from a factional leader's perspective, the race for the party presidency was the most important task, however, the rank-and-file members of a faction also profited from a leader's success in the race for the party presidency as they were rewarded with influential positions, within the party and the government. This observation is highly relevant, because in contrast to the seemingly unchallenged position of the LDP during its long reign in power, the individual position of a LDP Dietman was much more fragile. Hence, a LDP Dietman significantly depended on his personal support group (koenkai) to win in a specific constituency (jiban). Stockwin notes, that the koenkai 'are basically organised by and for the candidate, not the party' (1999, p.145), adding that 'the koenkai system was hardly compatible with strong local party branches' (1999, p.147). Yet, forming and maintaining a koenkai was a very expensive and time-consuming undertaking.

Even so, the koenkai system provided the LDP with a missing grass-root organisation of local assemblymen and Masumi argues, the LDP had depended on their local assemblymen to win elections, since it came into existence (1992, p.403). Yet, it can be argued that the koenkai undermined the LDP's ability to develop a strong local party fellowship and strong local party branches. The koenkai system also played a fundamental role in the impact local interests held over Japan's national politics, as it ensured the upward communication of local interests.

As each LDP candidate had to organise its own campaign, financial and organisational assistance were of crucial importance. As such membership of a faction had its reward, as leaders of factions assisted their members to win party endorsements and to gain access for funding election campaigns. In an environment where it was relatively easy for any candidate to run but extremely difficult to win (Pempel, 1982, p.36; Kohno, 1997, p.101), the backing of a faction, 'contribute critically to the electoral changes of rank-and-file LDP members' (Ramseyer and Rosenbluth, 1993, p.78).

However, it was also in the interest of a faction leader to recruit the most capable candidate into his factions. A faction leader's decision to accept a new member was based on various but specific considerations; such that a new member could depend upon a support base in a constituency, or the capability of winning elections. This would not only reduce the costs of an election campaign for the faction, but also enhance the strength of a faction and therefore increase the possibility for its leader to win the party president elections race (Ramseyer and Rosenbluth, 1993, p.69).

The faction leader in return expected the faction members to support him during the party presidency race. These interdependent relationships within factions led to a perception of factions as stable social structures, but their stability depended on their ability in serving their members' interests. Once again we are reminded the dynamic structure-agency dialectic within a particular context as strategically acting actors (LDP Diet member, leader of factions) formulated their plans in the context of the strategic environment (LDP party structure, particular election law) they operated within. Richardson points out, that one can classify the LDP factions as organisations in

themselves as they possess the characteristic elements of organisations: durability, autonomy, and internal complexity (1997, pp.62-3).

However, factionalism within the LDP also led to some serious intra-party competition, as there were a shortage of powerful jobs within both the party and the government. It can be argued that this is part of the game, and not everyone will get their 'share of the cake'. However, it was not so straightforward, as the threat of defection of faction members of an underrepresented faction represented a realistic challenge to the faction leader as well as to the political dominance of the LDP. Hence, faction leaders, not belonging to the coalition of factions behind the Prime Minister - had strong incentives to alter their position. If they continued to be underrepresented in the government and consequently missed out on important party or government positions, the leadership was in danger of losing the support of their own rank-and-file members (Kohno, 1997, p.111).

In an attempt to deal with this intraparty competition, and to mitigate contention, an institutionalised consultation process within the LDP was created. This contributed, as Richardson argues, to the stability of the LDP rule as it restrained strong centrifugal tendencies within the LDP (1997, p.7). He described these measures as the 'seniority systems' and the 'fair shares' norm. The first helped to reduce conflicts over appointments and made political life more certain, within and between the factions. The second ensured that all factions would get a share in party and governments posts, accordingly to their size (Richardson, 1997, pp.63-7). Nonetheless, leadership competition between different faction leaders continued to play an important role in

these intraparty conflicts and the adopted measures did not help to neutralise the strong intraparty leadership competition, which at times put a huge pressure on the coherence of the LDP.

A good example of this intraparty challenge to the leadership was the competition between Fukuda and Ohira, as highlighted by Ramseyer and Rosenbluth. In May 1980 the Fukuda faction lead a four-faction boycott against Ohira thereby enabling the passing of a no-confidence motion, brought in by the Socialists. This handed to the Socialist Party not only an unexpected victory, but it too led to a general election, as Ohira was not willing to resign from his post (Ramseyer and Rosenbluth, 1993, p.67). This episode provides an illustrative example of fractional dynamics within the LDP and the impact on Japanese politics.

Although the LDP developed different ways the intra-party competition, it was the split of its biggest faction, the Takeshita, in 1993, which brought an end to its long rule and consequently undermined the stability of the Japanese political-bureaucratic-economic regime. Thus, one could argue, that in 1993 the internal conflicts and centrifugal tendencies within the LDP finally overtook the incentives for cooperation.



Even as factionalism was not limited to the LDP, factions were more important for the LDP than to other parties, because factions reflected the structural and functional needs of the LDP. However, factionalism also played an important role within the Japan

Socialist Party (JSP), yet it is more an expression of ideological disunity within the party, as it is the case within the LDP. Furthermore, conflicts over policy also contribute to factionalism within the JSP, and as the JSP had not been in power, there were fewer incentives for the JSP factions to work together, as it was the case among the LDP factions (Stockwin, 1992, p.102). Another fundamental difference between sectionalism with the JSP and the LDP is that factionalism within the LDP was more related to personal matters of a Dietman's career prospects, whereas within the JSP factionalism rather reflected diverse policy orientations or conflicting ideological considerations.²¹

However, as mentioned above, the LDP's ability to keep up with the fundamental social change which occurred during its long reign was another critical aspect in its ability to stay in power for such a long period; this will be the subject of the following section.

9.2.3 The LDP's ability to keep up with social change

During the LDP's hold on power tremendous social change took place. This social change was the outcome of a process of industrialisation and modernisation Japan experienced from the early 1960s onwards, leading to an explosion of the urban population. By the early 1970s, a third of Japan's population was living in only one percent of Japan's total land mass, concentrated in and around Tokyo, Nagoya and Osaka. Figure 30 highlights the prolonged and concentrated trend in population movement away from towns and villages towards the cities.

²¹ Different policy orientation and specialisation among the LDP Diet members was not reflected in the LDP factions at all, but in the development of *zokus*, groupings of Diet members with a special interest and knowledge in a specific policy field that cut across factional boundaries (Richardson, 1997, pp. 54-5).

Masumi provides three perceptions of the specific character of that social change: changes in social stratification composition (industrial occupational), changes in social modes (urban versus rural), and the impact of mass media. The data on the source of economic income of households also highlights this trend away from the agricultural sector towards other forms of household incomes (Figure 31).

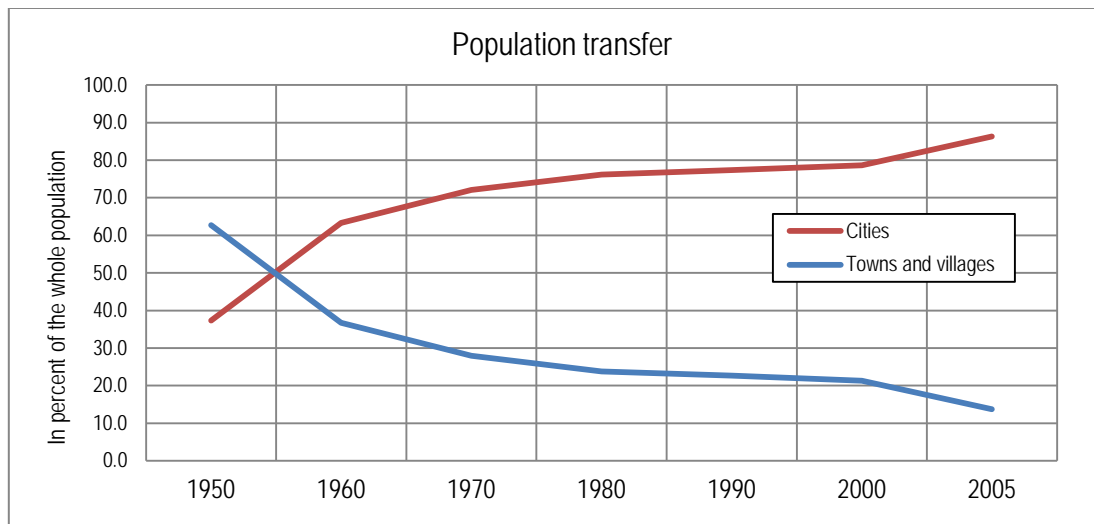


Figure 30 - Population Transfer (%) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7)

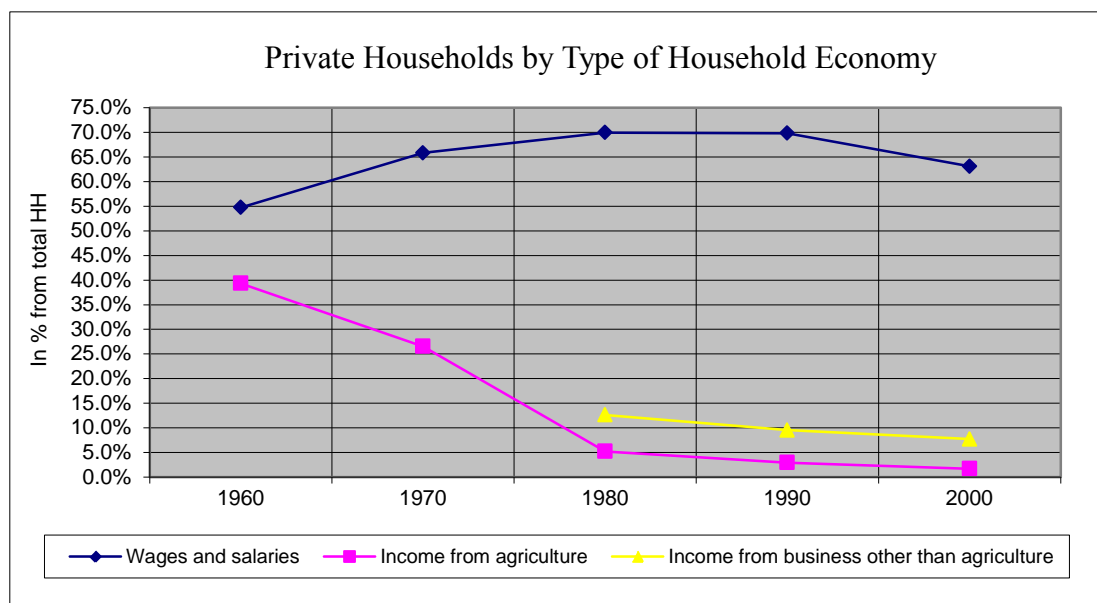


Figure 31 - Private Household by Type of Household Economy (%) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7)

The ongoing process of industrialisation created a mass society identified by the increasing interaction between urbanisation and mass media (Masumi, 1992, pp.38-9). This had a significant impact for the LDP, as its political power was firmly anchored within Japan's rural constituencies, since the LDP's dependency upon rural constituencies continued to be an important feature in winning elections. However, during this process of industrialisation these rural constituencies were depleted of their population. As for other political parties this development did not pose such a challenge, as for example the JSP's main base of support was to be found among industrial workers and union members, especially within Sohyo.

The LDP responded to these challenges in various ways, as pointed out by Stockwin, including enhancing the environmental standards; improving welfare provisions; reducing the population pressure on cities; and an accompanied shift from a single-minded pursuit of growth towards concern with the quality of life (1999, p.145). Nonetheless, though addressing these problems in the late 1960s and early 1970s, the LDP continued in its industrialisation program because of two important support groups: big business and the economic ministries. We should remember that an underlining consensus in modernising Japan's economy and in making Japan a respected country again formed a basis for legitimacy of the Japanese regime. Masumi also reminds us that the LDP's political dominance depended on the talent of the bureaucracy, on business funds and professional politicians' (Masumi, 1992, p.48), and it was within this framework that the LDP had to balance the different interests of each of its supporting groups.

Yet, it was this ability of the LDP, to integrate the interests of many different social forces, which was one essential feature of remaining in power and in responding to the social change during its rule. As Purnendra asserts, in dealing with the different interests of its supporters the LDP also managed to ‘attract a sizeable majority of urban voters and semi-urban middle class voters’ thereby building up a reputation of a ‘department-store type party, which has something attractive on offer to a wide range of customers’ (1997, p.17). Richardson’s definition of the LDP depicts

a coalition that has existed to serve the interests of its members, its leaders, and interests group constituencies by winning elections, formulating public policy proposals, and providing a system for recruiting party and government leaders (1997, p75)

However, we should also note, as Curtis argues, that the LDP itself changed from a loose coalition in 1955 to a complex and differentiated organisation thirty years later, reflecting more than just the sum of its factional parts (1988, p.2), which also endorses Masumi’s assessment, that the LDP attempted to transform itself from a parliamentary party to a mass-based party following its creation in 1955 (1992, p.40).

Hence, the 1980 and 1986 revival of the LDP (see Figure 29) pointed towards its ability to gather sufficient votes to win elections. Nonetheless, the pressure on the LDP increased during the 1980s and early 1990s, and Reed points out, that contrary to the 1960s and 1970s, the LDP was no longer able to survive periods of unpopularity by

relying on support in rural areas. Yet by focusing on more independent urban voters, the LDP had to manage a more volatile electorate (1997, p.119).

However, this social change led to a new development in Japanese party politics that while it was still legitimate to characterise politics in rural Japan as an essentially one-and-a-half-party system, urban Japan produced by the mid-1970s a system in which six parties were in active competition (Curtis, 1988, p.20). Voter independence also rose during the period from the mid-1960s to the late-1990s, indicating that Japanese people increasingly emancipated themselves from party affiliation and party politics.

Nevertheless, this retreat to the 'private' realm did not prevent a rise of activism, reflecting the rise and political influence of local movements in response to environmental issues, pollution and poor quality of housing, symbolised by the anti-pollution campaigns, in the late 1960s and early 1970s, and equally exemplified by the kakushin shucho (radical liberal mayors and governors) movement.



Yet, a main cause preventing the opposition from challenging the LDP rule was the opposition itself, due to its inability to work together to form a national government. What was interesting was that parts of the opposition could work together successfully at the regional level and in the Diet, but the opposition seemed unable to form a united opposition to challenge the leadership of the LDP at the national level.

9. 3 Opposition Parties: Party fragmentation and inter-opposition competition

In analysing the extended dominance of the LDP in Japanese party politics, we have to take into account the behaviour of the opposition parties. Moreover, if there had been no defectors from the LDP in 1993, the LDP rule would not have ended at that point.

9.3.1 Party proliferation

Even as the LDP dominated the political landscape between the early 1960s to the early 1990s, Japan's political system did witness the emergence of a number of new parties, even though they were rather small and mostly splinter groups from the existing parties.

Some party proliferations were related to ideological issues within the opposition's camp. Stockwin argues that ideological factions within the JSP can be traced back not only to its split in 1951, but to the foundation of the party in the late 1920s. That period saw a three-way split in the socialist movement, as three party internal groups were formed with the Shamin-kei on the right, the Nichiro-kei in the centre, and the Rono-kei on the left. This three-way split was carried into the post-war JSP, (Stockwin, 1992, p.85). This internal division is of importance, because the ideological division between its right and left camps ran very deep and was centred on the issue of whether the JSP should be a 'class-party' as favoured by the left or a 'mass-party' favoured by the right. A connected issue was whether the JSP should emphasise a revolutionary or evolutionary approach to political change (Stockwin, 1992, p.88).

This ideological division played an important role in weakening its internal cohesion, and to foster defection. Following a defection from the JSP in October 1959, prompted by increased influence of the 'left' within the JSP, the right-wing Shamani-kei group, led by Nishio, a former party secretary-general, subsequently formed the Democratic Socialist Party (DSP). The final point of departure was the JSP's internal division, as to how to respond to the revision of the U.S. – Japan security treaty, but it too stimulated an intensified left-right confrontation within the JSP.

The JSP had to face another serious internal crisis in 1977, which witnessed a further defection, when in the spring of that year the Eda group defected from the party, and formed the Social Democratic League (Shaminren). Later that year the Eda group together with other defectors started negotiations, which lead to the founding of another new mini-party in the spring of 1978, the Social Democratic Federation (SDF). The emergence of new parties, as pointed out by Stockwin, undermined the electoral support of the JSP, especially in some metropolitan areas, which hitherto had been regarded as a Socialist heartland (Stockwin, 1992, p.92).

However, we also witnessed the emergence of a completely new political party, the Komeito or Clean Government Party (CGP) in 1964, capturing 25 seats in the lower house election of 1967 and 47 seats in 1969. The emergence of Komeito signalled an important development towards a multiparty structure in the Japanese party system, since Komeito did not emerge as a result of a split from an existing party. Komeito's ideological orientation was grounded on religious principles and its political support basis, is the Soka Gakkai, a lay organisation of a Japanese Buddhist sect (Curtis, 1988,

pp.24-5). Furthermore, the stability of this support and the fact that it represented the second-largest opposition party, transformed it into a significant political actor (Curtis, 1988, p.27).

However, the LDP too faced some internal challenges during that period and we witnessed some, although rare, departures from the LDP as well. One of these rare developments was a reaction to the Lockheed Scandal in 1976, as a small group defected from the LDP, and formed the New Liberal Club (NLC). The NLC gained significant public support, but few seats in the Diet, despite winning 19 seats in the 1976 House of Representatives elections, from its 25 candidates. Although there had been a NLC boom in Japanese media inspiring the proliferation of other parties, the NLC was neither able to build a strong party organisation, nor to attract enough LDP defectors to enhance its strength.

The NLC also remained deeply divided over its political strategy. The focus of this internal division was how to respond to the LDP, as one group of the party was in favour of working to reform the LDP and had as its goal a reunification with a reformed LDP, whereas the other group focused on the creation of a new party in the centre of the political spectrum; to co-operate with the DSP and SDF. This conflict came to a head in 1979, resulting in the resignation of Nishioka and of his group (Hrebenar, 1992, pp. 216-7). Even though the LDP and NLC formed on December 26, 1983 the first coalition since 1947, afterward it admitted failure in the 1986 elections, and was unable to address its internal division, thereafter NLC was dissolved and its six lower house members re-joined the LDP in 1986.

In evaluating the NLC's progress, Curtis points out, that the NLC was handicapped from the beginning, as, it took only a few LDP Diet members with it and not a whole LDP faction (1988, p.31). However, Hrebenar argues, that the NLC was the most successful of the parties created since the mid-1970s (1992, p.222).

Despite that the period from 1955 to 1993 saw the emergence of a number of small parties, we have to recognise that the proliferation of new parties did not alter the government-opposition dichotomy. A further opposition weakness during the 1955 to 1993 period was the inter-opposition competition, which was another dominant feature within the opposition camp.

9.3.2 Inter-opposition competition

One of the main causes preventing the opposition from challenging the dominant position of the LDP was the opposition itself, based on its inability to work together to form a national opposition to the LDP. This inability of the opposition to form a coalition at the national level happened at a time when, as Johnson asserts, the opposition parties received more votes than the ruling LDP in every House of Representatives election between 1972 and 1983, indicating that the time would have been fertile for electoral pacts (2000, p.57). Although, there have been a number of attempts within the opposition camp to form a cohesive opposition and various alliances to challenge the LDP, but most of these were tentative efforts.

Johnson outlines this inter-opposition competition in his analysis of several opposition coalition attempts between 1970 and 1980. He identifies seven circles of opposition coalition attempts,²² although none of these attempts were successful and Johnson asserts that this failure was a consequence of the underlining strategies, since coalition attempts were mostly employed by Japanese opposition leaders as a means to alleviate organisational crisis rather than to realise electoral potential (Johnson, 2000, p.58). Adding that the priority of the opposition parties' leaders, was not to challenge the LDP but to ensure the survival of their organisation and their personal position within them. He consequently characterises the nature of the rivalry within the political system as one that was often carried out within the opposition camp instead of between them and the party in power (Johnson, 2000, pp.179-180).

The NLC provides a good example in this respect. Hrebenar asserts, that in 1979 one could identify two major factions with the NLC, the Kono and Nishioka factions, divided by their position towards the LDP, either to seek a re-unification with a reformed LDP as Nishioka emphasised, or to form a new middle party – in cooperation with the NLC, DSP and SDF – a position Kono advocated (1992, p.216).

In addition to this fierce competition within the Opposition camp, the exclusion of the Japanese Communist Party (JCP) by all other opposition parties, when attempting to form a united opposition coalition against the LDP, was not helpful either. Both the opposition and the voters viewed the JCP as a pariah in Japanese party politics, despite

²² First circle from December 1969 to April 1971, the second circle from May 1971 to December 1972; the third circle from January 1973 to July 1974, the fourth circle from November to December 1976, the fifth circle from January 1977 to July 1977, the sixth from August 1977 to October 1979, and the last one from October 1979 to June 1980. For a deep discussion see Johnson (2000, Chapter 3 and 4).

attempts by the JCP to give itself a more moderate program, as for example at its party congress in July 1976, in adopting a new Manifesto of Freedom and Democracy, outlining that it would respect civil liberties and the existing multiparty system. In highlighting the impact of excluding the JCP from forming any opposition block, Hrebenar argues that this had far-reaching political implications, as without the JCP's thirty seats, a non-LDP coalition government could not be formed (1992, p.11).

Regarding the opposition camp's inability to work together in challenging the power of the LDP, Curtis argues, that the opposition parties acted like spectators, during the LDP's inter-power struggle between October 1979 and the middle of 1980, when for the first time, two LDP faction leaders (Ohira and Fukuda) openly ran against each other for the post of prime minister. Even at that time, the opposition leaders could not agree on how to exploit the LDP internal weakness (1988, pp.40-42). This weakness of the opposition in cooperating together at the national level, and, in the case of the JCP the unwillingness of the opposition camp to integrate it in an united block against the LDP lead to a change of mind within the opposition camp in the early 1980s as the focus shifted from challenging the LDP to reach an accommodation with it, by participating and sharing power with the LDP (Stockwin, 1992, p.88; Hrebenar, 1992, p.7).

However, the actions of the Japanese opposition parties was, to some extent, a reflection of voter behaviour during the 1955 to 1993 period, as is was often the case that one opposition party's improved performance at a specific election was achieved at the cost of other opposition parties, instead of weakening the support for the LDP. The 'Doi boom' (1989-1990) provides a good example. After Doi Takako was elected as the

leader of the JSP, the first woman to lead a major party in Japan, she suffered a crushing defeat in simultaneous elections for the upper and lower house of the Diet were held in July 1986. The result of this 'Doi boom' was that the opposition camp became more united behind a single opposition party, as most of the socialist gains came at the expense of other opposition parties (Reed, 1997, p.117).

As emphasised by Reed, the lack of a political alternative - in the eyes of the voters - essentially contributed to the success of the LDP, even as the Japanese electorate had suggested that it was ready to vote the LDP from power since 1976. However, he too stresses, that though the Japanese voters wanted change, there was insufficient clarity and consistency of voter behaviour, with respect to the 1980 and 1986 revival of the LDP (Reed, 1997, p.122). For example, in the July 1989 House of Councillors elections the LDP was credibly defeated, yet, the Lower House election of February 1990 witnessed a triumphant LDP.



Though, despite the apparent stability of the '1955 system' we witnessed the emergence of new parties and a voter behaviour which indicated a willingness to vote the LDP out of power, however this never materialised and since the proliferation of new parties occurred mostly, but not exclusively, within the opposition camp it rather weakened then strengthen the opposition. For that reason Curtis asserts that in systemic terms, the major function of these new political parties was to help the LDP to retain its power by fragmenting the opposition (1988, p.21). Hence, he argues, that the transformation of

Japan's party system from a two-party to a multiparty system was accomplished almost entirely due to fragmentation within the opposition camp (Curtis, 1988, p.30). Hrebenar too, argues that the fragmentation of the opposition facilitated the LDP's continuance in power (1992, p.32).

Chapter 10 – The challenge of growth from Sunrise to Sunset: Economic, social and political challenges

In chapter 8 we addressed the nature of the Japanese regime, its planning instruments, the state-market relationship, the bureaucratic influence and the political framework, with the intention to outline and evaluate the underlining aspects of the Japanese regime. Yet, any regime's test will come when it has to demonstrate its ability in formulating and implementing specific economic, political and social targets, or in devising a sound response to domestic and/or international crises. A regime's ability or inability of doing so will provide a vital insight into its capabilities in managing fundamental challenges.

In addressing the developments and challenges in the period from the mid-1960s to the late-1990s, this chapter will include an evaluation of the rapid growth period, the domestic and international challenges of the early and late 1970s, the revival of the economic performance in the 1980s, and the developments in the early and mid-1990s, which constitute a critical challenge to the Japanese regime's stability.

10.1. The Rapid Growth Era

It was the period between the mid-1950s and the early 1970s when Japan's economic miracle occurred. Yet, this economic success was neither anticipated nor a likely outcome, as the country was not only devastated by the Second World War, it also was

a country without resources and cut off from its former colonies and their resources. However, though not anticipated at the time, the widespread devastation of manufacturing centres provided an impetus for economic recovery and modernisation. Nevertheless, economic recovery should never be taken for granted, but Japan did possess an important factor which facilitated its recovery and the ensuing economic success: extensive human capital and knowledge in manufacturing and production technology (Kinston, 2001, p.36). What's more, the newly built factories were more technologically advanced than the ones destroyed, consequently enabling new technologies to spread faster and thereby enhancing the productivity of its industry.²³ Japanese companies also benefited from the high domestic saving rates and a government policy that kept interest rates low, therefore providing competitive access to capital. Japanese companies gained an additional advantage as the domestic market was almost closed to foreign imports, allowing Japanese industries and businesses to develop without fearing overwhelming foreign competition in the home markets.

The 'National Income-doubling Plan' of the Ikeda government, enacted in November 1960, underlines the economic development strategy mentioned above. The plan aimed at doubling the income of the whole population starting by aiming for an annual growth rate of real GNP of nine percent for the first three years that created an atmosphere of high expectations and subsequently fostered economic development. In addition, the extremely low oil price until 1973 and a robust growth of the world economy facilitated Japan's economic development as well.

²³ A similar impact on post-war development can be identified in post Second World War Germany and Austria.

There were also additional external factors in the form of foreign markets, which provided both vital opportunities for Japanese products and a stimulus for the Japanese economy. Hence the unhindered access to the US market from the early post-war years onwards, and the stimulating economic impact of the Korean War, helped to pull Japan out of the post-war recession. The fixed and low exchange rate of the Yen to the US dollar (Y360-1\$) also favoured the export of Japanese products.

However this access to and stimulus from foreign markets provided vital assistance for Japan's economic planners, which were confronted at the time with a limited consumer demand; and the danger of an overheating economy, especially in times of excessive growth as in the late 1950s. Seiyama highlights, that the increase of Japan's exports helped to address both problems, consequently lessening the need for domestic countermeasures (1989, p.53). The data in Figure 32 clearly illustrates the international success of Japan's economy when competing for foreign markets and underlines the export success of Japanese products, from the early to mid-1970s onwards. Moreover, this international economic success was accompanied by an equally astonishing balance of payments development, visible in the trend in Figure 33. Alike, Figure 34 also indicates the positive impact Japanese exports had on its economy by highlighting the positive trend in Japan's trade balance, despite that this positive impact did not gain momentum until the early 1980s. This success in international export markets stands up to international comparison as well, as Figure 34 indicates, as only Germany managed to replicate Japan's international success.

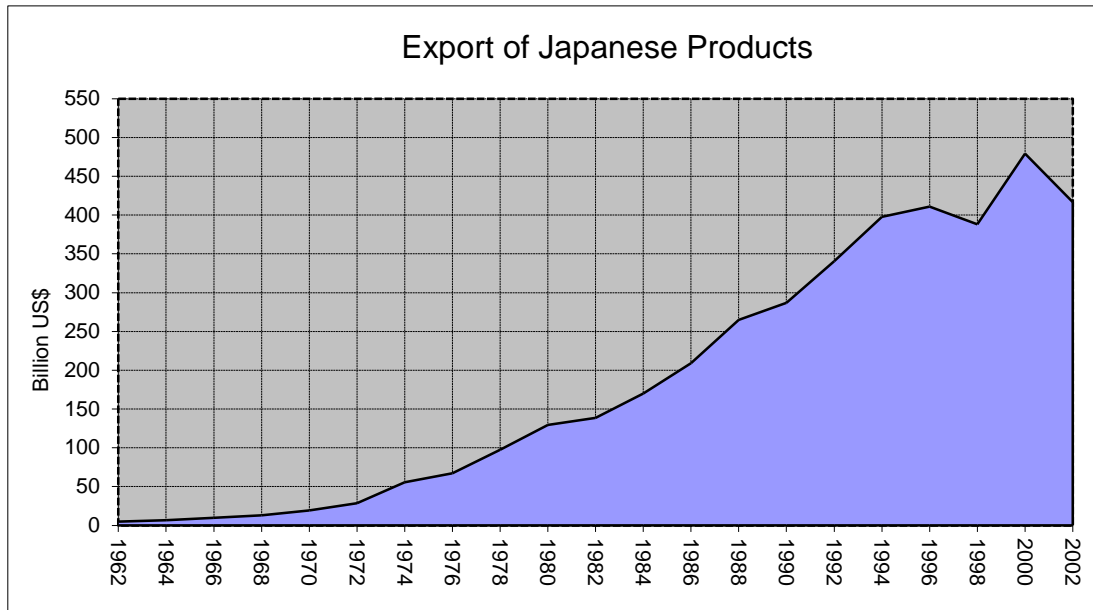


Figure 32 - Export of Japanese Products (US\$) Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

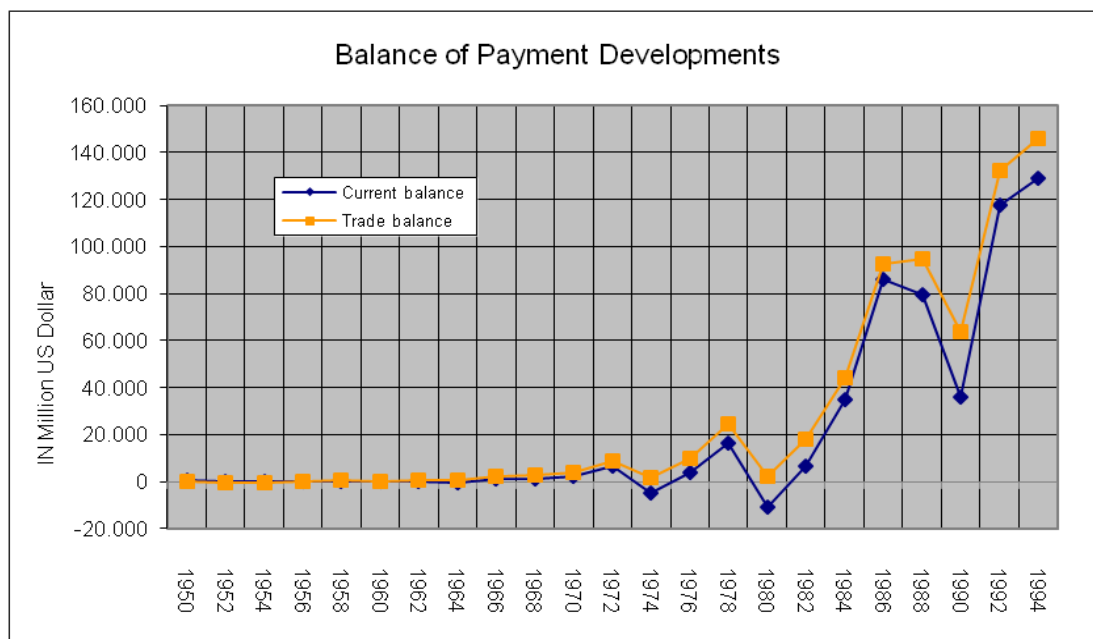


Figure 33 - Balance of Payment Developments (US\$) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7)

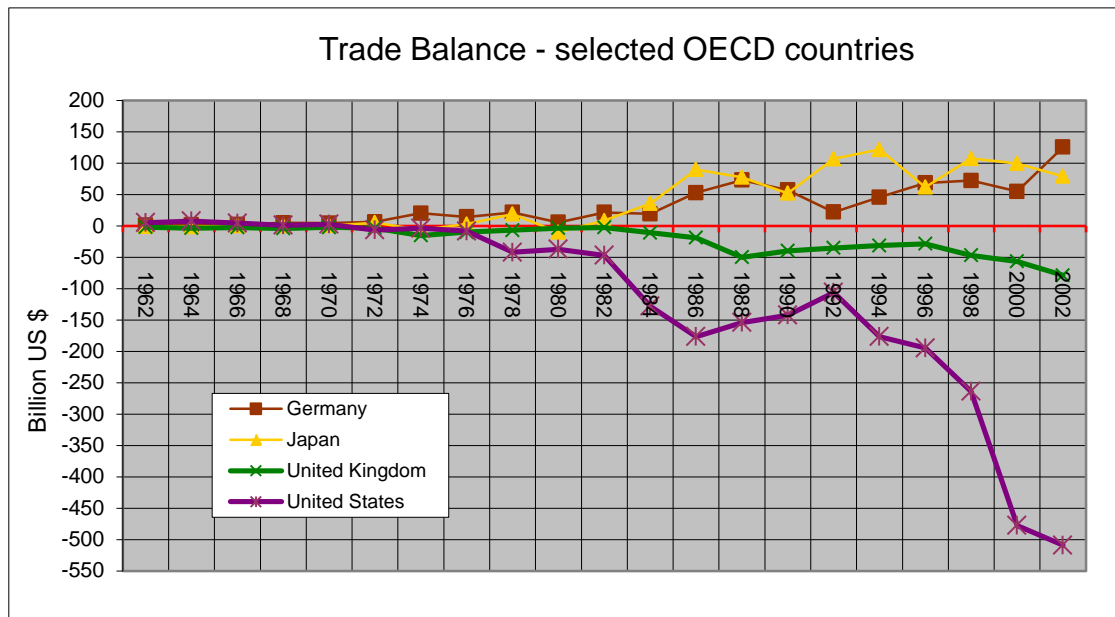


Figure 34 - Trade Balance of selected OECD countries (US\$) Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

Assessing the government's policy during the rapid growth period, Seiyama highlights two of its essential features: first, fostering heavy industrialisation as well as a high rate of capital accumulation in the industrial sector, and maintaining a relatively low level of living costs for the work force (1989, pp.49-50). It was also a time when industrial policy was high on the agenda, with MITI taking a prominent role in fostering the modernisation of Japanese industry. Tsuruta contends, that government intervention at that time 'can be divided between institutionalised interventions backed by specific laws and "administrative guidance" not backed by law' (1988, p.57).

However, some features of MITI's industrial policy also led to problems in later periods. MITI's strict control of foreign currency allocation during that period and its distribution within the national economy provides such an example. The distribution

was based on the reserve production capacity of each company, leading to excessive investment and accumulation of extensive overproduction capacities (Sheridan, 1993, p.149). Which in times of recessions added additional pressure on restructuring the economic capacities developed in earlier periods. Sheridan for example, links the need for anti-recession cartels in later periods, to this period of intense capacity building (1993, p.153).

It is important to remember that developing a new industrial structure was a central aim of modernising Japan's industry during the 1960s. However, another important advantage Japan enjoyed during this period was that despite going through a process of industrialisation before and during the Second World War, Japan still was a late developing country and this in turn enabled it to take advantage of technical developments in other countries, by enhancing its international competitiveness without the need for expensive and risky R&D investments. In addition, the closed domestic market, as mentioned above, contributed to the international success of the Japanese economy as it enabled Japanese corporations to 'subsidizes from profit generated in the domestic market where prices were generally higher than those charged overseas' (Kinston, 2001, p.42).

Thus, the economic developments between the periods of mid-1950s until the early 1970s saw Japan succeeding in creating the most competitive heavy industrial sector in the world (Seiyama, 1989, p.49), and consequently joining the ranks of the major economic powers. However, the early 1970s marked the endpoint of the high economic growth era and the Japanese regime faced a number of tests and challenges.

10.2 A tale of contestation, deceleration, and revival: the 1970s and 1980s

The impact of the two oil-crises in the 1970s were strongly felt in Japan, as its economic development contracted. However, the Japanese regime faced additional challenges as well. First, as a consequence of the rapid economic growth period, Japan's economy had become a mature economy (Kinston, 2001, p.44) thus losing its position as a late developing economy. Second, the decision of the Nixon administration in 1971 to abandon the gold standard led to a more flexible exchange rate system. This resulted in an appreciation of the yen to the US dollar. Third, there were crucial changes within the international economy, which undermining Japan's export strategy. And fourth, social and environmental issues galvanised into political challenges for the regime as well.

Since the impact of the two oil-crisis figured very prominently within this period, their impact will be the first focus of inquiry.

10.2.1 The two oil-crisis: a robust domestic response to a serious international challenge

In evaluating Japan's economic developments during the 1970s, the impact of the first and second oil-crises figure prominently. Especially the first oil-crisis of 1973 had a massive and negative impact on economic developments in Japan. In evaluating its impact, Uekusa notes, that the Japanese economy experienced a harsh period of inflation, a drop in growth rate, and a shift to a balance of payments deficit, adding, that recovering from the first oil shock took about three years (Uekusa, 1988, pp.91-2). The data in Figure 35 indicates the negative impact on Japan's economic growth. Seiyama

observes that the economic impact of the 1973 oil crisis led to a ‘structural oil crisis recession’ which lasted from 1974 to 1975, and levels of manufacturing production did not regain their former level for five years (1989, p.49). However, economic growth recovered in the years following the first oil shock. The second oil shock too had a negative impact on the economic growth dynamic but its impact was less severe when compared to the 1973 oil crisis. However, the impact of the second oil crisis on the balance of payment development was significant as well (Figure 33).

Their impacts also underlined the lower growth expectations of the government, which reduced its expected growth rate to about five percent between the mid-1970s and 1990s. Dore and Taira point out that this had a great effect on the decisions of companies, leading not only to a reduction in investment, but also requiring the companies to tackle the overcapacity, which were built up in the more optimistic years (1986, p.8). In addition, the impacts of both oil crises are also visible when one focuses on the dynamic of the Consumer Price Index, as it increased sharply at the time of the oil-crises, which is clearly identifiable in Figure 36 (red line).

Allinson emphasises that the industrial decline in the 1970s had a different nature, as it struck at the heart of Japan’s leading industries, namely shipbuilding and steel making (1997, p.129). Implementing structural adjustments within declining industries represented one of the most difficult problems the Japanese regime faced during that period. Hence, as pointed out by Uekusa, the two oil-crises triggered an unprecedented change in the structure of the Japanese economy characterised by a

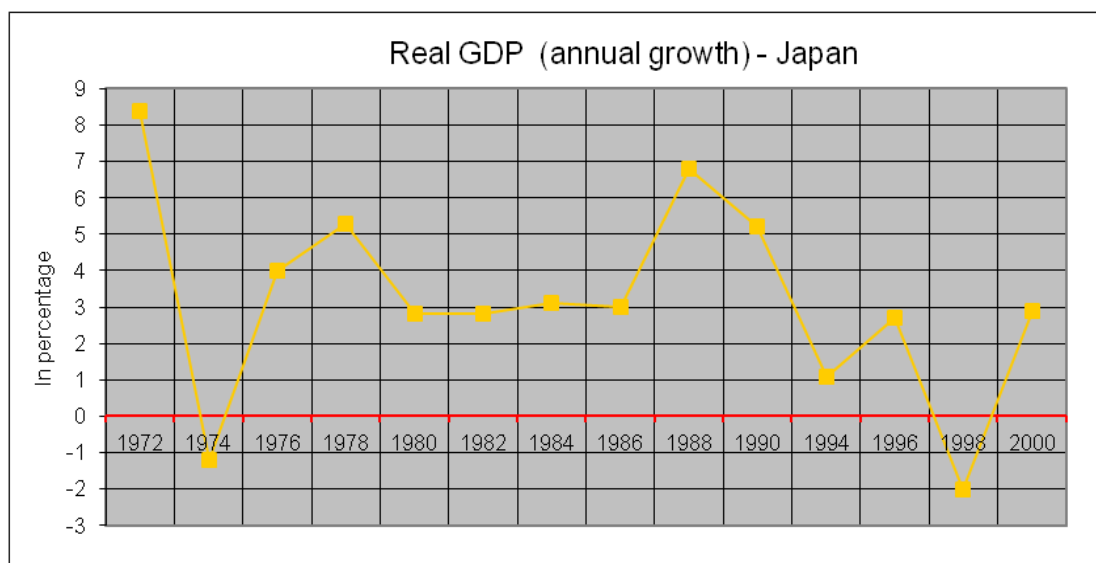


Figure 35 - Real GDP (annual growth) - Japan (%) Source: Derived from OECD

Factbook 2008: Economic, Environmental and Social Statistics

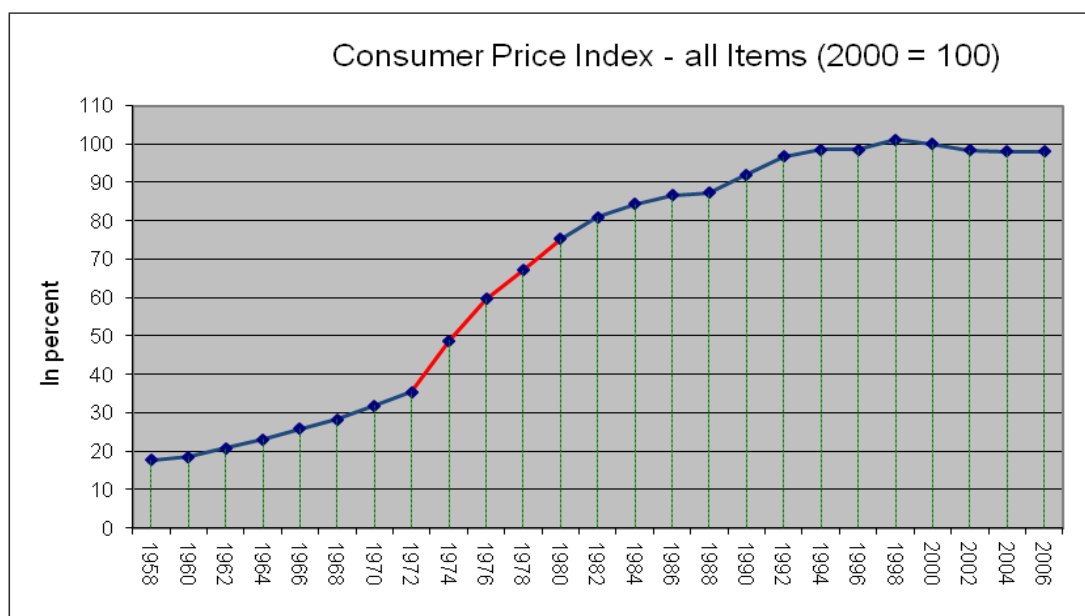


Figure 36 - Consumer Price Index – all items (%) Source: Derived from OECD

Factbook 2008: Economic, Environmental and Social Statistics

declining growth rate; an unequal development between the basic materials and assembly industries, as the basic material industries had been heavy users of energy, and

therefore had been harder hit by the rising energy costs, than the assembly industry which used lesser energy (1988, pp.92-3).

At this stage, it is necessary to examine the effects on the wider economy. The change of macroeconomic/microeconomic variables do not necessarily pose a threat to a growth forecast of a national economy, instead it presents an opportunity for further development by providing incentives for initiating a process of economic adjustment and to increase the productivity. Equally critical is how the involved actors are willing to respond to such a challenge, either by mere defensive measures (mostly protective measures) or in a more proactive way, by facilitating an accelerated process of modernisation and by increasing the productivity of the particular economic sector or shifting investments toward a different sector of the economy, to facilitate international competitiveness and economic growth. The Japanese regime showed a remarkably willingness to follow the latter path.

Characterising Japan's response to the economic challenges, generated from a changing international environment, Allinson contends that, Japan acted resolutely in concentrating on cutbacks in many depressed industries, referring to the structural adjustment process in the shipbuilding industry as an example.²⁴ The response of the Japanese regime was to convince the shipbuilding industry to agree on an industry wide reduction of thirty-five percent of its total capacity in the late 1970s. Although, this inflicted a huge pressure on the industry, it enabled most companies to stay in business,

²⁴ Before the first-oil-crisis in 1973, Japan produced more than 50 per cent of the world's commercial shipping tonnage, concentrating on the building of massive tankers. Yet, with the first and second oil-crisis, the demand for these tankers decreased resulting in producing overcapacities.

to enhance the productivity of the whole shipbuilding industry and to remain internationally competitive (Allinson, 1997, p.130).

However, there should be no misinterpretation of the Japanese regime's response to the less-favourable international environment, as it too included defensive measures and a fundamental policy change when compared with the 'rapid-growth-era'. Kingston assesses the change of policy by pointing out, that there was a shift from 'picking winners' to a policy favouring recession cartels with subsidies and tax breaks for 'sunset industries', slowing down the restructuring process of the economy (2001, p.44). Despite that, the continuous and accelerating increase in the added gross value of the manufacturing sector (Figure 37) clearly indicates the success of Japan's economic restructuring policy.

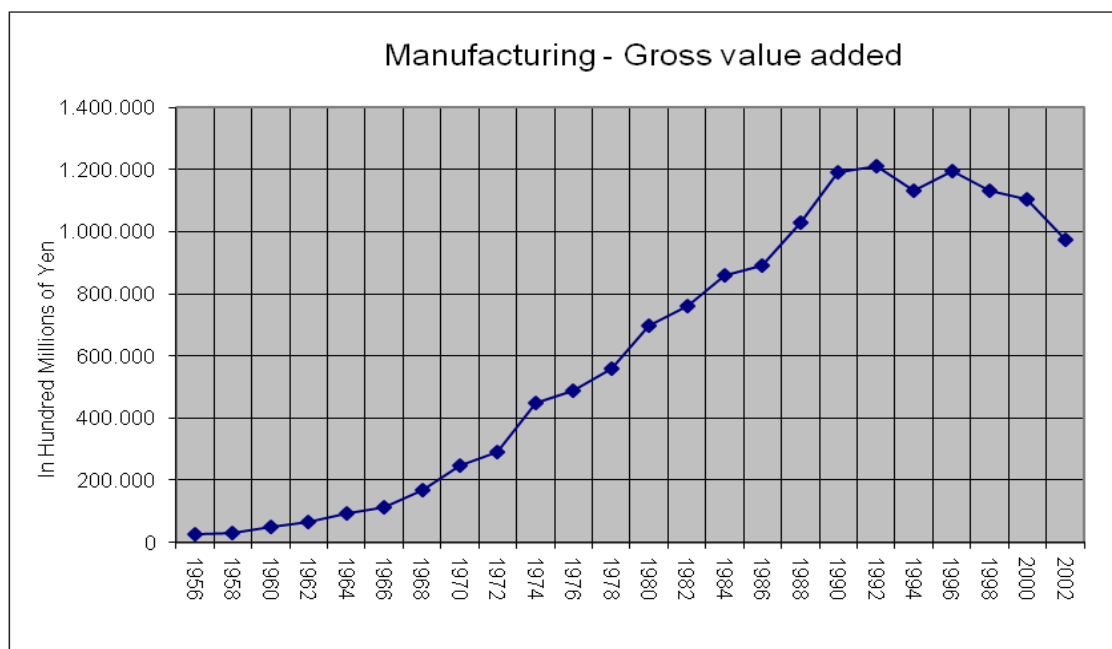


Figure 37 - Manufacturing – Gross Value added (Yen) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7)

In spite of this, the response to a changing international environment also facilitated the structural adjustment process in which the assembly industry, and here especially the automobile and electrical manufacturing sectors, enjoyed impressive growth rates. This had, as Allinson notes, further implications for the domestic economy, because the rapid growth in these two industries after 1974 stimulated a parallel expansion in the small and medium-size enterprise sector. This was linked to the preference of the final producer to work with independent sub-contractors (Allinson, 1997, p.133).

Seiyama highlights another interesting development, which occurred during the 1970s: 'Although productions levels did not return to their 1973 peak until 1978, productivity had already recovered to its 1973 level by 1976' (1989, p.65). This too, indicates a successful response of the Japanese regime to the international challenge of the 1970s, despite that the heavy industry suffered enormously under the high-energy costs. What's more, this sector was confronted by a dilemma of structural depression and by the end of 1977, the number of industries officially declared to be in a state of depression extended to twelve industries, with a total workforce of four million workers (Seiyama, 1989, pp.66-7).

However, by responding to the economic pressure of the two oil-crises, the Japanese economy managed to increase its energy efficiency as well, as indicated by Figure 38; nevertheless Japan already held a leading position among OECD countries, and retained it at least until the early and mid-1990s. An example, as pointed out by Hane, cites the case of the chemical industry, which managed to reduce its energy requirement by 23 percent between 1973 and 1979 (1992, p.379).

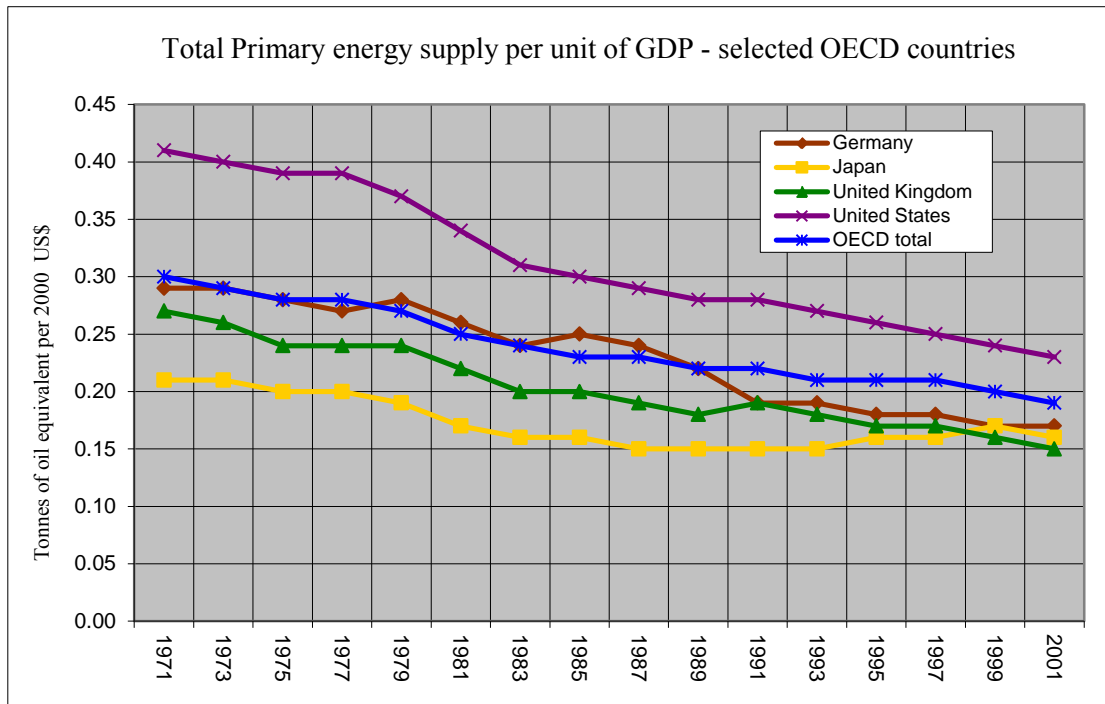


Figure 38 - Total Primary energy supply per unit of GDP – selected OECD countries

Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

The developments within the car industry illustrate the success of Japan's business community. The export share of the domestically produced cars increased from 30 percent in 1974 to 40 percent in 1989, reflecting the popularity of Japanese cars. Yet, as emphasised by Allinson, this led not only to the fast growth of the auto and electrical industry, it also stimulated a parallel expansion in the small and medium-sized sector, and led to the development of a new form of keiretsu, one which was based on an integrated production process within these two industries.

This type of keiretsu also differs from the older, financially oriented, keiretsu. Yet, by the 1980s the new keiretsu type had become the dominant one within Japan's

manufacturing sector.²⁵ However, at the same time this very export success provoked serious trade conflicts, leading to the threat of increasing customs duties on Japanese products. In an attempt to overcome trade barriers and to guarantee continued market access for their products, Japanese car producers began to relocate their factories abroad. Their strategy stimulated a trend, which later became known as ‘hollowing out’ the Japanese economy, by transferring more jobs abroad.

However, this concerted effort to improve productivity and quality enabled Japanese business to adjust constantly to developments within the international economy. During the 1970-80 period, another feature of the Japanese economy developed: a new dual economy. From the 1970s onwards, we saw the development of a two-tier system of the Japanese economy in which 30 percent of the companies are highly productive and utilised advanced technology, while 70 percent of the companies are small and less efficient businesses. Yet, when speaking of a new dual economy, we should note that during the 1950s and 1960s one could identify a sharp distinction between the agricultural and industrial sectors within the Japanese economy. Yet, as the data in Figure 39 indicates, manufacturing held the biggest share in the GDP, albeit the service sector finally caught up with it in 2001.

²⁵ Within the keiretsu structure we can distinguish between three basic organisations structures according to Pyle: ‘Horizontal keiretsu’, comprised of several dozen members including a main bank, larger financial institutions, large manufacturing and trading firms; ‘Vertical Keiretsu’, providing efficient, long-term reciprocal – which is sometimes debated – benefits for a parent company and its suppliers, including coordination of planning and investment, sharing of technology and information, and flexibility throughout the business cycles; ‘Distribution Keiretsu’, allow manufactures to control the mass marketing of products, allowed manufactures to prevent price competition among retailers and therefore to maintain high profit in the domestic market (Pyle, 1995, p.250).

A similar picture emerges when one focuses on the sector specific annual growth rates of real value added (Figure 40).

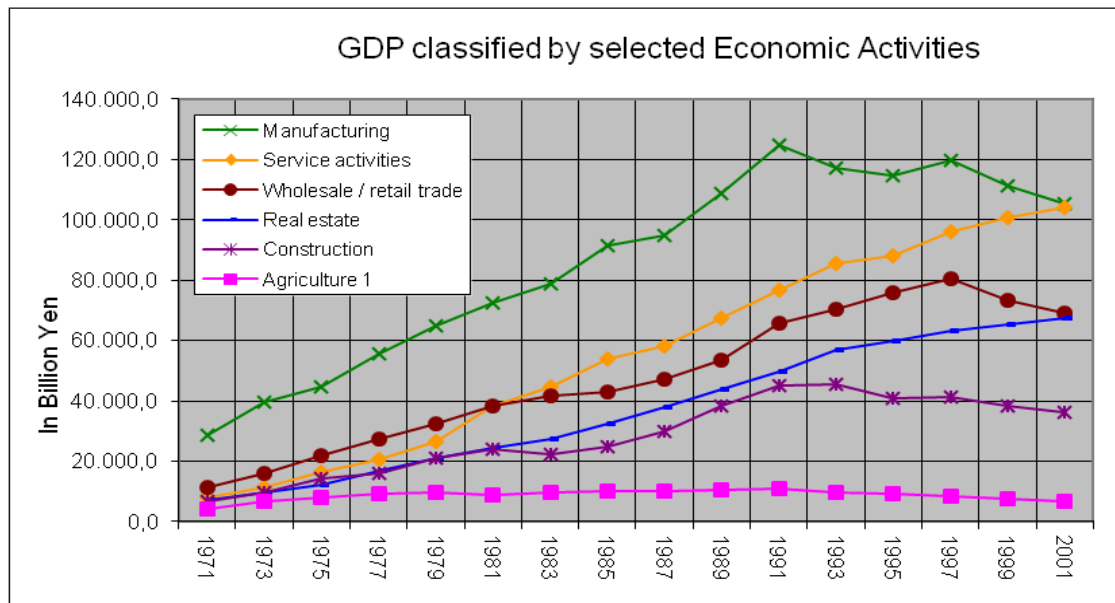


Figure 39 - GDP classified by selected Economic Activities (Yen) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7); 1) Include also Forestry and Fishery;

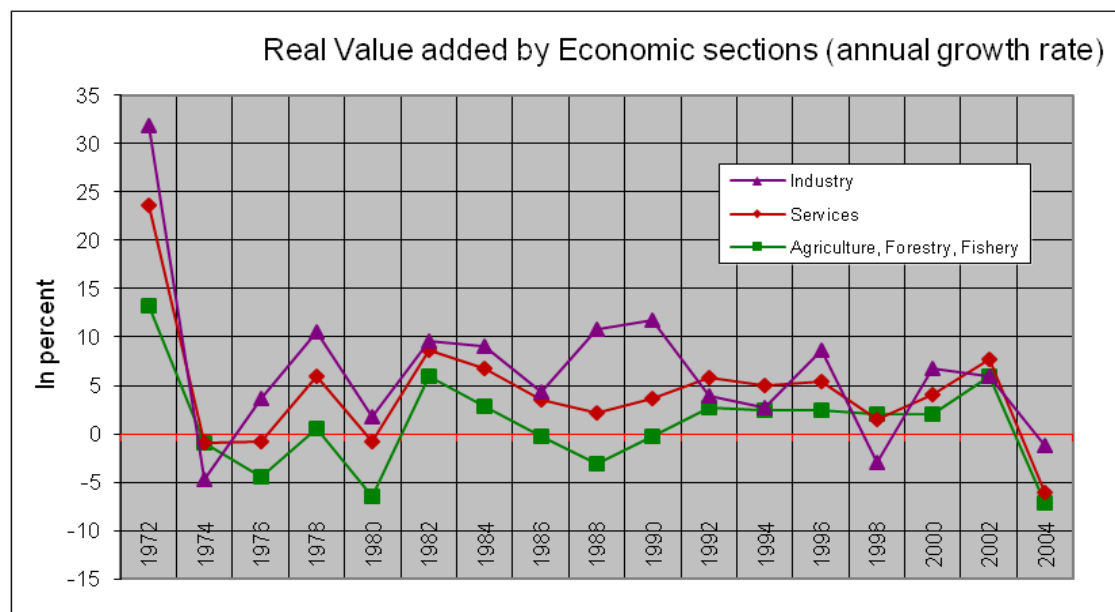


Figure 40 - Real Value added by Economic sections (annual growth rate) Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

Yet, although the industrial sector still led the development and demonstrated strong performance during the 1990s, the service sector increasingly enhanced its position to an extent that in 2001 it held an equal footing with the industrial sector. Yet, the 1980s brought with them a series of developments that altered Japan's economic development and with it Japan's position among the industrial states in the world. It was the time when Japan emerged as the world's second largest capitalist economy and became a first rank industrial power.

10.2.2 Indications of regime strength and revival

Despite the two oil-shocks, the Japanese economy showed a remarkable ability not only to adapt to these economic challenges, but indeed outperform many other economies. This strong performance reflects the increase of GDP when viewed in absolute terms and as indicated in Figure 41. This success of the Japanese economy can also be identified when compared with either the OECD countries or the U.S as seen in figure 42 and figure 43 respectively.

From the late 1970s to the late 1980s Japanese economy not only showed a remarkable ability of recovering, but it was also a time when Japan became the second largest capitalist economic power. Despite the period of the early 1970s to the late 1980s presented a mixed picture of challenges and success for the Japanese economy, yet the Japanese regime responded to these challenges, and taking into account the success of the early and mid-1980s, it did so quite successfully.

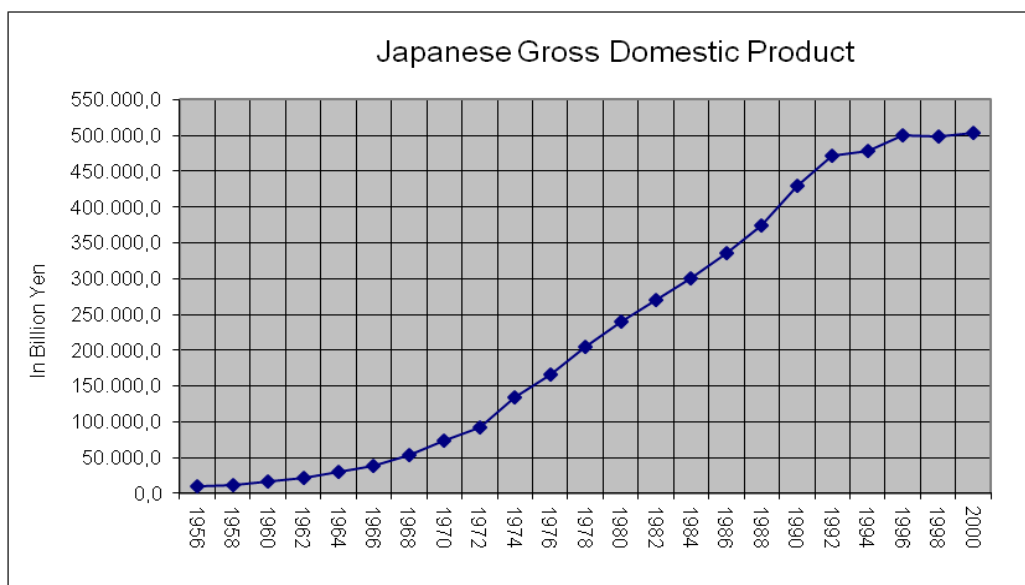


Figure 41 - Japanese Gross Domestic Product (Yen) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7)

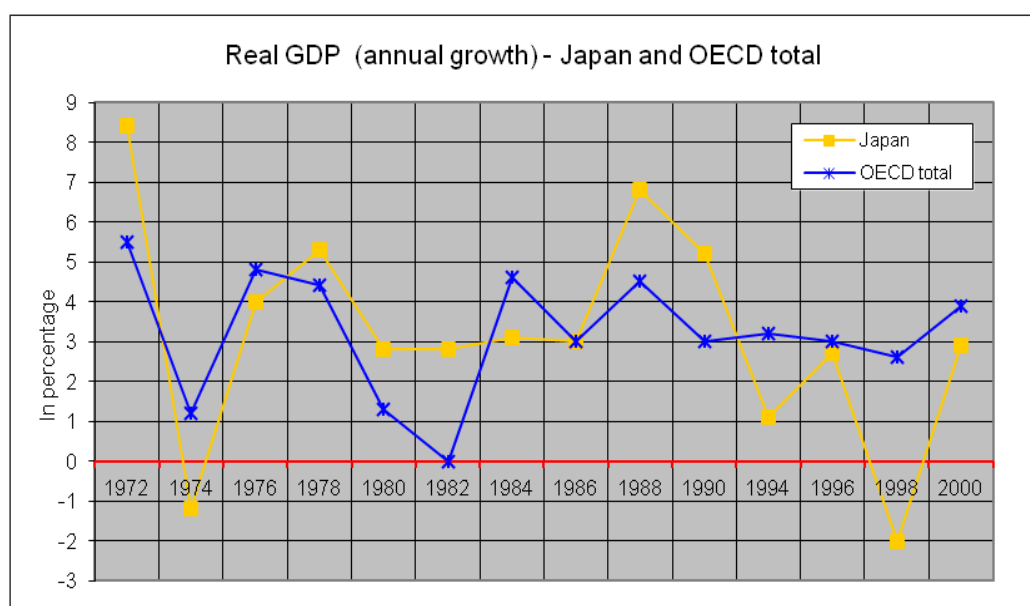


Figure 42 - Real GDP (annual growth) – Japan and OECD in total (%) Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

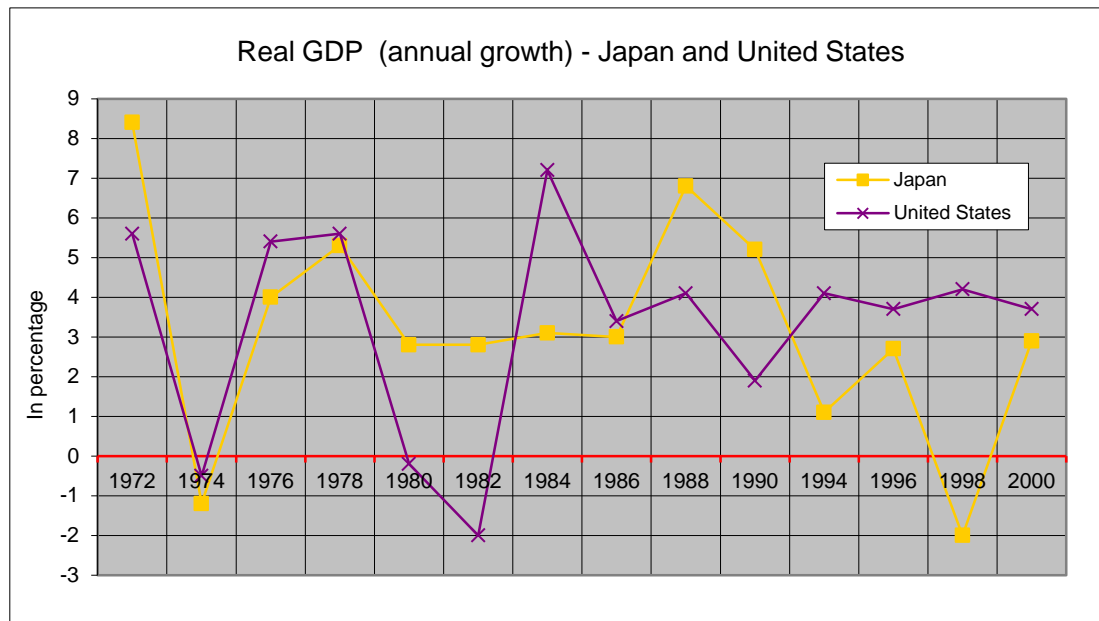


Figure 43- Real GDP (annual growth) – Japan and United States (%) Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

The mid-1980s witnessed yet another extraordinary Japanese phenomenon: Japanese super-industrialism (cho-sangyo-shugi). McMilliams notes, that Japanese super-industrialism, with its high rates of investment and decisive drives to reduce fixed costs revealed that in 1986 it became the world largest, creditor nation (1996, p.4). Dosi et al identifies Japan's techno-economic paradigm as unique, reflecting the government strategy of targeting specific industries, based on their anticipated growth and technological potential and the government's potential for promoting and implementing its policy (1989, p.5).

These developments clearly highlight Japan's leading position among the capitalist economies in the world, however, it also indicated that Japan no longer could profit from its status as a late developing country, indeed it already became a leading

economic nation itself, thereby changing its position from a follower to a leader. Japan's leading economic position was underscored by several factors: in 1980 Japan overtook the U.S. as the leading producer of automobiles; in 1981 the Japanese government launched a ten year program to build a fifth generation computer system, becoming the leading supplier of advanced computer systems. Dore and Taira point out that in 1980 over half of the world's industrial robots were in use in Japan (1986, p.10).

However, by the 1980s Japan had become a high-cost production base and Japanese companies increasing overseas investments signify another crucial development. Yet, this overseas investment of Japanese firms eventually led to a transfer of technical and innovative knowledge potential from within Japan to areas outside of Japan, thereby undermining its national economic strength and international competitiveness. Although this occurred over a long time period, certain implications for the Japanese economy could, as Boyer and Yamada indicate, destabilise one specific feature of Japan's economy: the sub-contractor system (2000, p.195).

Hence, as emphasised by Seiyama 'it can be argued that the oil crisis did not in the long run undermine Japan's international competitiveness' instead, Japan's strategic response of 'slim-line management' (*genryo keiei*) – involving rationalisation and cost cutting – proved quite successful (1989, p.65). The statistical data on economic development and on the trends in Japan's current balance and trade balance highlight the successful response of the Japanese regime to the international challenges it faced during the early and mid-1970s.

Yet, the late 1980s and the beginning of the 1990s, indicate the decline of that very successful period of economic development in Japan's history. The challenges the Japanese political-bureaucratic-economic regime faced in the following period, from the late 1980s onwards, signify a fundamental conjuncture, raising the question about the further relevance of that specific regime.

However, critically, the challenges the regime faced from the early 1990s onwards where not only economic, but reflected a wider dissatisfaction; early signs of this dissatisfaction were observable during its successful period, and indeed occasionally related to the very economic success the regime enjoyed.

10.2.3 The increasing international pressures on Japan's export strategy

This period also witnesses an increasingly challenging international environment as Japan faced intensified American and European pressure to allow access to its domestic market, especially since American trade deficit with Japan reached a record level of 100 billion US\$, a rate that no other nation had previously achieved. Japan's trade balance changed from a substantial import surplus to an export surplus. What's more, as the combination of its trade changed so did Japan's foreign investment. Whereas in the early stage the outflow was moderate, and mostly reflected investments to ensure the supply of raw materials and simple processing in low-cost countries, this however changed with the beginning of the 1980s, as Japanese companies began to establish modern factories in more advanced countries and became more internationally active, as indicated by the data in Figure 44.

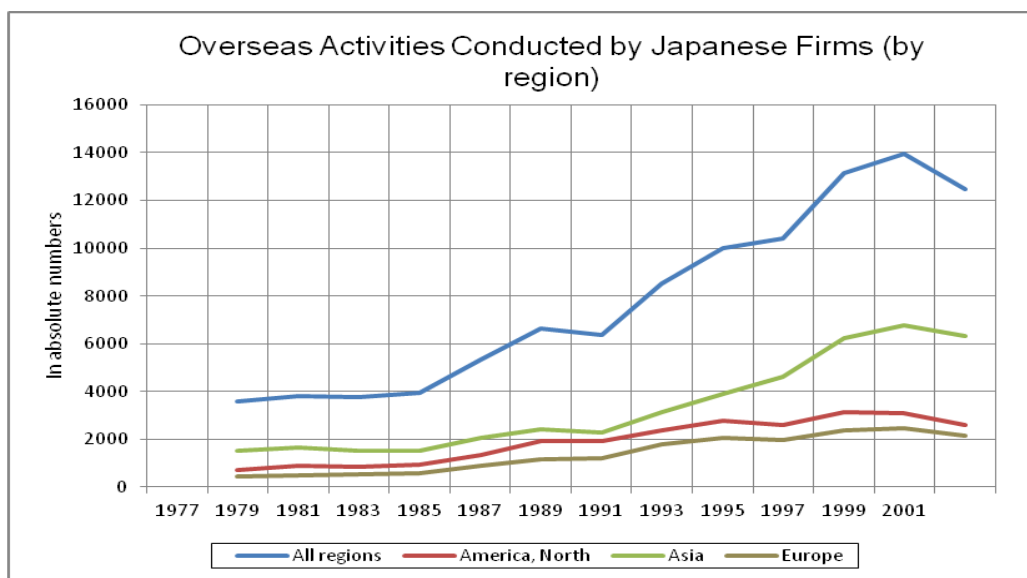


Figure 44 - Overseas Activities conducted by Japanese Firms (by region) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7)

As Japanese companies became increasingly successful in their international activities and especially in penetrating foreign markets the pressure on the Japanese regime increased considerably, especially since the Japanese domestic market was almost closed to foreign companies. The Japan-US relationship in particular witnessed an increase in trade related disputes and as a consequence of Japan's export success, consequently the fixed Yen-US\$ exchange rate was altered, triggered by the change of politics of the Nixon administration in 1971. This decision led to the 'first-yen-revaluation' and increased the pressure on the Japanese regime to adjust economically to a different and more challenging international environment. In assessing the impact of the 'first-yen-revaluation' Seiyama highlights, that it not only had a major impact on Japan's export-dependent economy, but in addition, the Japanese government expanded its deficit spending – funding additional infrastructure projects - to prevent a 'yen-

revaluation recession' (1989, p.62). Figure 45 indicates that although there was not an exchange adjustment before

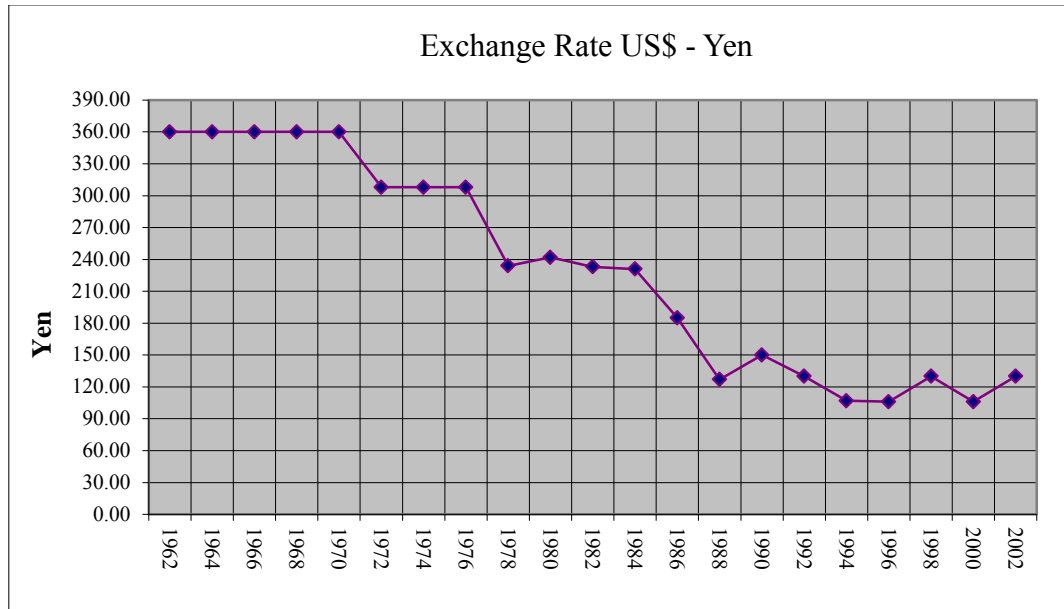


Figure 45 - Exchange Rate US\$ - Yen (Yen) Source: Derived from various editions of the Japanese Statistical Yearbook (2006/7)

1970, various adjustments were made from the 1970s onwards, reflecting the pressure for adjusting the yen-dollar exchange rate. These adjustments were highly contested political issues between the governments of Japan and the USA.

However, the 1980s witnessed not only a series of intensive trade negotiations between the United States and Japan, but also a series of genuine Japanese responses to these challenges. Whereas the former include the Plaza Accord of 1985 and the Structural Impediments Initiative (SII) talks of 1989, the latter refers to the three Maekawa Reports, published between 1986 and 1987. Beginning with the Plaza Accord, these trade negotiations aimed at liberalising the Japanese capital market. Though at the time

of signing the accord, it was seen as a success of American diplomatic will, disagreement among economists over the actual achievements of the Plaza Accord - in response to the main aim of reducing the flow of Japanese manufacturing exports into the U.S - existed from the beginning (Williams, 1994, p.53).

However, the Maekawa Reports, in the words of Kinston, represent a watershed in government thinking about the economy, which led to a stimulation of domestic demands, consequently lessening the corporate dependence on export markets, thereby overcoming the existing high-price, job-intensive, distribution network (2001, p.95). Yet, these trade negotiations and especially the Plaza Accord inflicted a major blow on the Japanese economy, leading to the high-yen (endaka) recession of 1986.

The SII negotiations in 1989 represented another attempt by the United States to push for an opening of the Japanese domestic market.²⁶ Williams notes, that the U.S. administration was demanding a set of politically expensive modifications to Japanese economic practices, which overall would not adjust the trade imbalance in America's favour. He goes on to argue, that the Japanese possessed a more nuanced appreciation of how to redress structural change. Yet, as the Americans did not want to contemplate a structural revolution of the U.S. economy, consequently Japanese structural change was the only issue in question (Williams, 1994, p.63). However, Japanese super-

²⁶ The main objects included several aspects: 1) an end to the restriction of the size of retail stores in urban areas; 2) Japan's hesitance to increase spending on public works to 'suck in imports'; 3) reducing the high price of living space in urban centres, thus increasing the rate of consumption, facilitating the import of consumption goods; 4) to end the exclusionary practices of keiretsu, which was interpreted as a barrier to the foreign penetration of the Japanese market; 5) the practice of widespread of manufacturer rebates to retail distributors; 6) the pervasive web of business cartels and dango (secret bidding agreements); 7) the feeble enforcement of Japanese law against monopolistic trading practices. See Williams (1994, p.62-63).

industrialism, with its massive capital investments, helped to mitigate the effects of the Plaza Accord (Williams, 1994, p.55).



Despite this economic success of the Japanese regime, it faced increasing domestic challenges reflecting social developments, which were linked to the very success of the regime. These domestic challenges centred on the low living conditions and industrial pollution the Japanese people had to endure, which were basically a result of the rapid economic growth process and the growth paradigm of the regime; I will come back to these issues in the following chapter.

Still, these social protests are early signs of increasing disparagement of the regime's overwhelmingly economic growth focus and represented an early source of discontent, which added to the challenges the regime faced in the early 1990s, which is the focus of the following section.

10.3 The 1990s - The accelerated pressure and challenges to regime stability

With the end of the 1980s and in the early 1990s, Japan found itself confronted by an economic situation significantly different to earlier post-war periods, with the exception of the immediate post-war years.

Economic development in the late 1980s and the 1990s indicated that this was no longer the case, yet the early 1990s also has seen economic growth as well, but on a quite moderate scale and it seems that economic underperformance will characterise the Japanese economy in the years to come.

The data in several of the above Figures illustrates this downward trend from the late 1980s, early 1990s onwards. For example, Japan's real GDP annual growth rate as detailed in Figure 35 shows the sharp drop of the growth rate of almost seven percent in 1988 to about one percent in 1994 and a negative growth rate of almost two percent in 1998 – this highlighted the extent of economic challenges during the 1990s.

The data in Figure 46 and Figure 47 below, signify a similar development, indicating the negative trends, whereas in the first figure the data highlights the strong increase of unemployment. In addition, government spending reached records levels, accumulating a huge deficit, as the data in Figure 39 indicate. At the same time the Japanese government's net borrowing steadily increased from the early 1990s onward and reached new heights, by the end of the decade, reaching over seven percent of the GDP and almost eight percent in 2003 (See Figure 47 – Government net borrowing/net lending).

This trend not only demonstrated a fundamental domestic challenge, but also from an international context, Japan did not perform well compared to the US and the OECD countries (as a total Figure) with regard to government borrowing over the same period of time, as their percentage of borrowing decreased considerably from the late-1990s on

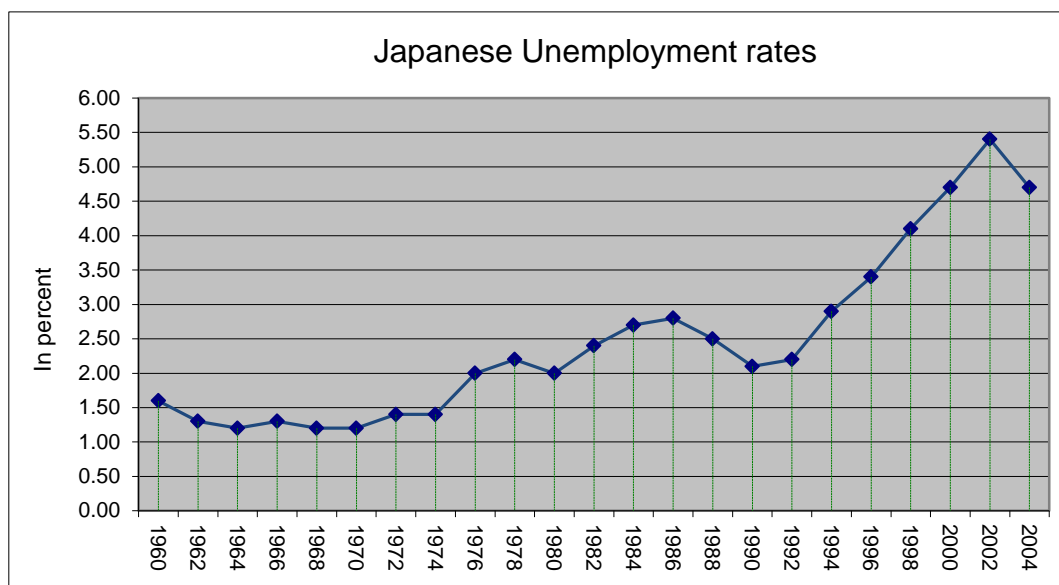


Figure 46 - Japanese Unemployment rates (%) Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

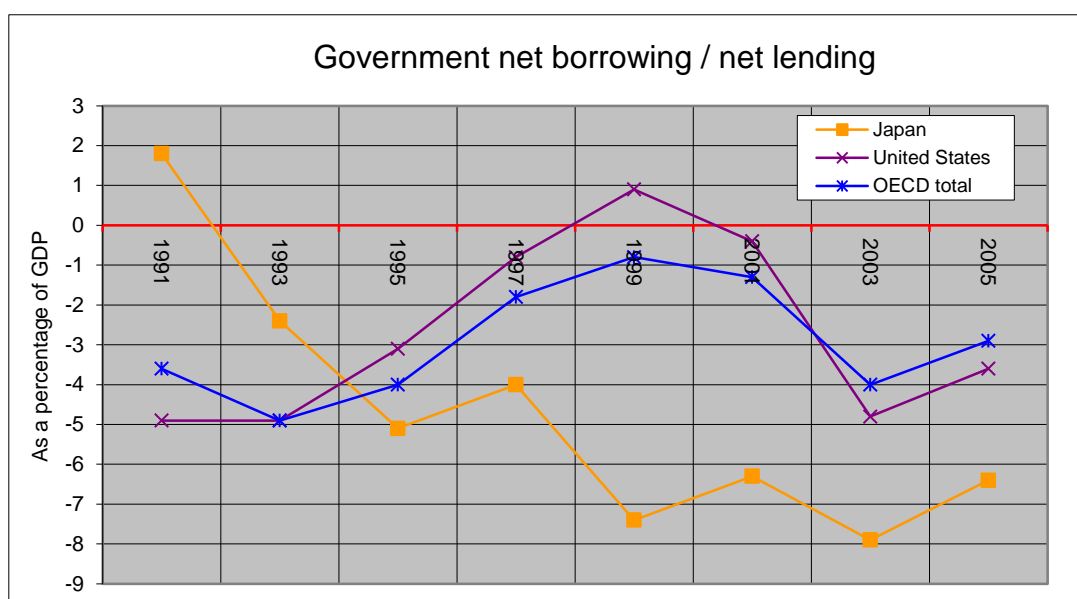


Figure 47– Government net borrowing / net lending (%) Source: Derived from OECD Factbook 2008: Economic, Environmental and Social Statistics

wards, and a backlash in 2003 can be noted (see Figure 47). An international comparison of real GDP annual growth rates denote a similar trend, whereas Japan performed on average better during the 1990s than the OECD (as a total), with the

exception of 1984, the trend changed from the late-1990s onwards and Japan's performance was below that of the OECD for the remaining period of the decade (see Figure 35).

In sum, these data indicate that the Japanese economy did indeed face serious challenges. Moreover, these economic challenges coincided with a number of serious corruption cases, further increasing the pressure on the regime. Weinstein argues, that while monetary policy helped Japan to export its way out of earlier crises, this did not happen this time (Weinstein, 2001, p.34).

Wakatsuki argues that the protracted slump of the 1990s had two main causes. First, there was a complacent faith that Japan's economy was inherently strong and that it would overcome the economic problems. Second, Japan was slow in recognising the impact of an accelerated process of globalisation. In this way, it had become a prisoner of its earlier success (Wakatsuki, 2001, p.23).

Kinston identifies two areas of concern. One is the specific Japanese employment system and the other the practice of corporate cross-shareholding. Regarding the first, domestic and international economic pressure undermined the senior wage system, one of Japan's employment pillars. Despite that the Japanese labour system retained low labour costs in the 1950s and 1960s, it led to intensive overhead costs by the late 1980s and 1990s, at a time when the Japanese economy plunged into recession. The employment situation worsened from the early 1990s onward, as the data in Figure 46 indicates. Nevertheless, compared to other nations, Japan's unemployment rate did not

appear too unfavourably in the 1990s, but for Japanese who were used to much lower unemployment rates, this situation provided another signal of unsettling times and that a more fundamental robust approach in responding to the economic situation was necessary. This consequently put pressure on the Japanese regime as well.

However, recognition that change is necessary does not imply an agreement on the extent of the nature of these challenges. In this regard, Freedman argues, that Japan required a fundamental transformation, by pointing out, that although the defeat in the Second World War presented a shock of sufficient magnitude, it did not change its particular capitalistic system in its basic structural approach to economic development (2001, 3).

It is vital to note that institutional and organisational structures are not only expressions of earlier processes of state formations, but consequently influence further processes of adaptations as well, thereby highlighting the crucial impact of what was described in the theoretical part as economic, administrative and political viability. Furthermore, the former highly successful performance of the Japanese regime delayed the recognition and the willingness to introduce fundamental change to adapt to new challenges. Consequently, there are indications that the 1990s do not solely represent a cyclical down swing of the Japanese economy, instead, they suggest a rather more fundamental change in Japan's economic development. This could constitute, as Williams indicates, a break with earlier developments of the 1970s and 1980s, when the adjusting process at that time was merely an extension of the development process following the Meiji reforms (1994, pp.92-93).

Chapter 11 – Changing regime structure: challenges, adaptation and failure

As the analysis and data in the previous section demonstrates, the regime was successful in generating economic growth and implementing a process of economic modernisation as from the 1960s onwards Japan's economic development accelerated and despite the setback of the two oil shocks in the 1970s it became the second biggest economy in the 1980s. During this period, Japan was transformed from a semi-industrialised country to one of the leading economic nations, clearly indicating the success of the regime.

The achievements of the regime are underlined by the following observation made by Dore and Taira, that the Japanese economy has 'out-performed' those of other industrial nations over the decade, no matter what economic indicators are used – growth output, growth of employment, growth of R&D, low inflation or unemployment rates (1986, p.177).

Even so, as the previous chapter also indicated, the Japanese regime faced several economic and social challenges in the past, yet from the early 1990s onwards and almost continuing for the duration of that decade, Japan's economy faced significant economic challenges - rising unemployment, low annual economic growth rate, and an actual two percent shrinking of the economy in 1998 - pointing towards an extended downturn. Japan's economy experienced an economic crisis and stagnation that it had not experienced since the immediate period after the Second World War. This may also be a reminder that a regime, despite how successful it may have been in the past can still be exposed to fundamental challenges at a later stage.

However, in the context of this research, the questions are: does the economic recession of the 1990s represent a fundamental transformation, rather than a mere economic slow-down within recurrent economic cycles; can we identify changes within or of the regime? The argument presented is that the Japanese regime is actually undergoing a process of regime change, a process which will witness the disintegration of the existing regime.

11.1 Early social protests

Despite the economic success of the Japanese regime over an extended period, from the late 1960s to the late 1980s, it faced increasing domestic challenges reflecting social developments, which were linked to the very success of the regime. These domestic challenges centred on the low living conditions and industrial pollution the Japanese people had to endure, which were basically a result of the rapid economic growth process and the growth paradigm of the regime.

Although some of the pollution cases already occurred in the 1950s - the most prominent was the 'Minamata Bay Case', where about one thousand people died and several thousand suffered from mercury poisoning - it was not before the end of the 1960s that the pollution issue became a contentious political concern. Over time other cases of water contamination occurred as well as the so-called itai-itai disease, a case of cadmium poisoning.

Economic growth and the goal of modernising Japan's economy, however, formed a consensus within the regime that was backed by the society as well. As the increasing social costs increased it alienated an increasing part of the population with this economic growth focus of the regime. Kahn and Pepper argue, that the very success of economic growth gave rise to a critique of growth-orientation of the Japan regime (1978, p.20). At the centre of this protest was the kutabare GNP movement (down with GNP), which surfaced in May 1970. Moreover, it was not only fuelled by the economic related movement of people, from the countryside to the urban areas and manufacturing centres, but as Kahn and Pepper note, by a rise in the expectation of Japanese people of better living conditions (1978, p.56).

Yet, what Kinston described as the 'Ideology of GNPism' (2001, p.43), provided a source of political consensus within the Japanese regime. However, this overemphasis on economic growth became the very focus of criticism. This presented a real dilemma for the Japanese regime since Japan's rapid growth period was the source of Japan's post-war success and political stability. Sheridan adds that the economic success during the 1960s also helped to overcome the shock of the defeat in the war and the humiliating label of being characterised as a 'semi-industrialised' nation (1993, p.146).

However, the Japanese regime did respond to these challenges, for example, by establishing the environment Agency in 1970, and passing numerous laws addressing water and air pollution. These steps had a twofold effect, as not only was the pollution problem successfully managed, but an entire new industry was established, which produced and sold pollution control equipment for both the domestic market and for the

export market (Khan and Pepper, 1978, p.71). Furthermore, Dore and Taira assert, that industrial pollution also provided incentives to shift the emphasis in manufacturing away from industries with high pollution, which depended heavily on imported raw materials, towards 'knowledge-intensive' industries, which were less dependent upon raw materials and consequently became a less pollution prone industry (1986, p.7).

Still, these social protests are early indicators of increasing discontent with the regime's overwhelming focus on economic growth, which added to the challenges the regime faced in the early 1990s; this is the focus of the following section.

11.2. The Economic rescission of the 1990s: the regime fails a new test

As discussed in the last section of the previous chapter, the economic success did not last and the downward process took a turn for the worse. Moreover, the economic recession of the 1990s also indicated a fundamental change, as compared to earlier economic downturns, for example, as in the 1970s oil-recessions, since the Japanese economy did not recover for a lengthy period, despite that a huge amount of government money was spent.

The bursting of the asset 'bubble' in early 1990, what has been described as an 'asset deflation recession', was caused by a large-scale decline of domestic asset prices and may be an indicator of the change in economic challenges the regime faced. Thereafter, Japan suffered a gradual and eventual negative growth coupled with price deflation.

Economic development prospects became and stayed gloomy, which also had an increasingly pessimistic impact on the nation's mood, despite that Japan was still a high-income country.²⁷

The fundamental challenges Japan's financial sector faced following the bursting of the economic bubble in the early 1990s further weakened economic performance. Moreover, it seriously undermined what was described as the 'main bank' system, basically a long-term borrower-lender relationship between banks and firms. This organisational link between banks and industry, as pointed out by Imai, allowed banks to take an active role in long-term-strategic planning within specific economic networks thereby improving Japan's financial system considerably (1990, pp.174-5). In addition, Boyer and Yamada suggest that, the reduced coherence of the financial regime in the late 1990s triggered a series of transformation processes, consequently undermining the inner dynamic of the growth regime (2000, p.193).

Furthermore, it is important to be aware of additional implications of the economic effects the 'bursting of the bubble' had on Japan's economy. Kinston reminds us, that the availability of money, before the economic bubble burst, encouraged banks to lend and companies to borrow vast sums not only for assertively expanding their production capabilities, but for asset speculation as well. In addition, borrowing money for asset

²⁷ There are at least two specific views of what caused the bubble in the first place. The first identifies the source in structural bank deregulation. Previously, the Ministry of Finance tightly regulated the Japanese banks; this included an adequate profit margin as well as being protected against bankruptcy. But this system began to be removed in the early 1980s and as competition became stronger banks became more willing to take financial risks. The second view, points towards a monetary explanation of the bubble. That easy money in the late 1980s caused the asset bubble. Yet, when the bubble burst, Japanese banks were confronted with huge financial burdens in the form of 'bad loans', which at times threatened the whole Japanese banking system.

speculation became a frequent practice (2001, p.106). Not surprisingly, the collapse of asset speculation considerably harmed the Japanese economy.

The bursting of the economic bubble in the early 1990s and the increasingly grave financial situation during the 1990s also put pressure on specific relationships within the regime. Moreover, reflecting not only the economic downturn of the 1990s, but also the increasing liberalisation and internationalisation of Japan's economy. Wakatsuki notes, that the ties within the keiretsu groups were loosening as was the practice of cross shareholdings within specific industrial enterprises (2001, p.28). Again, undermining another crucial feature of the Japanese economy, which was also highly relevant for the Japanese regime in managing economic change and facilitating economic development.

Overall, the economic stagnancy of the 1990s undermined considerably the assumption that Japan's economy would simply grow out of the economic difficulties. This too indicated a rather more epochal change, as opposed to a normal cycle of economic growth and stagnation, adding to a perception of failure and inability of the Japanese regime, and further undermining its acceptance within the society and its relevance for Japan's future development.

Without doubt, the Japanese regime faced its biggest test not only with regard to the economic bubble, it seems that the regime was not able to find a resolute response to the economic malaise and the challenges Japan's economy faced from the early 1990s onwards. This seeming inability of the regime to respond successfully to the actual

crisis situation, strongly contrasts with its successful responses to critical economic and social challenges it faced earlier in the form of the two oil crises.

However, one should recognise that the regime's responses were more limited as they had been before, not at least because of the regime's success. After all, Japan changed from a catch-up economy to a front runner in economic development and with it the cost and challenges of finding a future economically viable direction increased. However, as pointed out by Kaneko, although Japan had become a global leading economy in the 1980s, it did not change its catch-up-style growth oriented economy towards a system more suitable to a globally dominant economic position (1998, p.31).

It seems the regime not only became a prisoner of its own success, but also became more rigid in the selection of potential responses, which in itself can be an indication for the necessity of changing internal regime relationships, consequently undermining its ability to act.

11.3 Internal regime challenges: success, increasing pluralism, and decay

To begin with we need to examine the process of transformation within the Japanese regime, that is, its internal coherence, in formulating and implementing a coherent policy. It is also important to evaluate the developments within its constituting elements separately. It is equally significant to appreciate that internal regime relations were never free of conflict, as tensions surfaced at various times. Nonetheless, over an

extended period, the regime was able to respond to these conflicts and tensions, yet the regime's ability of doing so decreased over time.

One argument put forward is that the internal composition of the regime changed so that it was no longer able to integrate the increasing pluralisation of positions into a coherent and accepted agenda. This section will focus on these issues and provide an insight into the dynamic of regime change in the Japanese case. It will start with a focus on the LDP, followed by the changes to the bureaucracy and as well as the business sector.

11.3.1 The LDP: external pressure, internal cohesion and the cessation of the divide and rule strategy

The length of the time the LDP managed to stay at the centre of political power added to a reputation of strength and stability, one which, as evaluated in the chapter on party politics, was actually exaggerated when taking a closer examination. Johnson, also emphasises, that under close scrutiny the LDP appeared rather more precarious than one would assume (2000, p.3). Even so, Stockwin reminds us, that it was the LDP's remarkable ability of adapting itself to new social circumstances and in mobilizing new sources of electoral support (1999, p.145), which proved critical for defending its dominant position. The data presented in Figure 29 highlights the LDP's ability in mobilizing the electorate despite occasional setbacks and the fundamental social change, which took place during its long reign in power.

Nevertheless, partly as a consequence of the intensifying social change and a concerted urbanisation process, the LDP became increasingly compressed between the various interests it tried to represent. This increased the pressure on its internal coherence. Overall, rural areas continued to constitute a crucial electoral support base for the LDP. What's more, it is important to recognize that the pluralization of the society, which was based on the regime's successful economic modernisation process, was an indication of its success in modernizing and facilitating Japan's economic development. In that, it provides a good example of success leading to a new and different challenge for an existing regime.

As discussed before, the various factions within the LDP constitute a crucial organizational feature that assisted in mobilizing voter support at elections and were instrumental for the LDP to overcome its weak grassroots organizations. Ramseyer and Rosenbluth argue, that factions were instrumental in helping to divide the vote for the LDP, as they represented organizational units that enabled the LDP to compete successfully at the district level (1993, p.78). Although crucial in mobilizing local support at times of elections, this also allowed an upward transmission of many local specific issues, and consequently local issues became hotly contested topics within the LDP leadership and at the national level.

However, as factional groups had a particular interest in government positions and such positions were in short supply, they also were a source of internal friction. A prominent issue was the role of factions in the election of the LDP party presidency, which also meant that, during the LDP rule, the successful incumbent would assume the position of

Prime Minister. Yet, as noted by Kohno, no party president was expected to hold on to the position indefinitely, as no faction had a majority within the party (1997, p.112). However, these internal party dynamics are also an indicator for the existence of an internal party pluralism, which was critical for the LDP during its long reign as it changed into a catch-all party, and thereby represented a diverse range of opinion, albeit with a conservative bias, as noted by Richardson (1997, pp.66-7).

Factionalism persisted within the LDP and yet did not lead to a break-up of the party until 1993 when the split in the Takeshita faction, the largest faction of the LDP, not only upset the factional balance in the LDP, but within months, the LDP lost its government position as an alliance of parties were able to form a coalition government.

The question is why such a split occurred in 1993, especially as the factional dynamic, the related political challenges and alignments formed an inherent part of the internal political dynamic within the LDP since its inception in 1955. For example, the short cabinet tenure and regular cabinet reshuffling, almost at a rate of an annual turnover, during the LDP's reign, were related to fractional competition over influential positions within the LDP and government positions. Yet, from the early 1980s various crucial events occurred in Japanese politics.

To begin with, although Japanese politics was always characterised as 'money politics' and several prominent corruption scandals had occurred before, as for example the notorious Lockheed scandal in 1976, which involved former Prime Minister Tanaka, however, in the latter half of the 1980s the magnitude and instances of corruption

scandals intensified as did the amount of money involved. Among them was the Rikuruuto scandal involving a publishing company, and the Kyowa scandal in which a company bribed cabinet ministers in charge of regional development in Hokkaido. Another financial scandal, the Recruit, involving not only politicians, but crucially, also bureaucrats, seriously tarnished the generally positive reputation the public had for the bureaucrats.²⁸ Yet, in February 1992 another scandal broke, involving a truck company, Sagawa Kybuin.

In addition to these corruption scandals, Japan's economy suffered a number of setbacks in the early 1990s as well. The economic situation during the early 1990s changed drastically when compared with that of the 1980s, when, as it appeared then that it was only a matter of time before Japan's economic performance would overtake the U.S. economy. Then, in 1992-3 the asset bubble burst, economic growth slowed and a serious finance and banking crisis developed. Furthermore, as noted by Kinston, the credibility of Japan's financial system suffered tremendously by the apparent paralysis of Japan's bureaucracy and politicians to manage the financial sector crisis during the 1990s (2001, p.102).

Hence, it was a period in Japanese post-war history where public confidence in its government and in its public administration sunk to a very low level and where public disgust with the endemic corruption of the LDP provided a new context for political change. Importantly for the factional dynamics within the LDP at that time, as

²⁸ For example, Hrebennar note that the Recruit scandal was the most important influential of the political funds scandals and one direct outcome of this scandal was the 1989 upper house defeat of the LDP. (Hrebennar, 1992, p.7)

emphasised by Kohno, not only the Takeshita faction faced an internal factional leadership struggle between Ozawa and Hata, but in addition the Takeshita faction was also more sensitive to the public demand for reform, especially to reform of the existing electoral system which the public identified as the underlining source for 'money politics' and thus the resulting corruption scandals (1997, pp.145-6).

With this political background, the issue of political reform became a concern for the LDP in the early 1990s, however, conservative elements within the LDP continually refused to introduce change. For Kohno this set in motion a development where the perceived electoral vulnerability of younger LDP diet members and especially particular groups within the Takeshita faction informed their strategy to portray themselves as reformers which eventually led to the break-up of the faction. In their drive for reforms, and to be recognised as reformers by the public, they ultimately supported the non-confidence bill of the opposition in the Diet, which brought the LDP government down (Kohno, 1997, pp.147-8).

These developments provide a good example for the relevance of applying the strategic relational approach to describe the structure-agency dynamic since strategic actors (younger Diet members of the Takeshita fraction) acted in their strategic interest in the context of a distinctively strategic environment (the Japanese election law with its specific features) to ensure that their strategic interests (being re-elected) were strengthened. In doing so, they also provide evidence that agency is not a prisoner of a particular structural environment, the LDP's internal mechanism for addressing the

demands of various fractions consequently alert us that we should refrain from privileging either structure or agency, as advocated by the strategic-relational approach.

Hence, the internal factional struggle manifested into an issue of electoral reform with consequences at the national level, as a group of opposition parties were able to form a coalition government in August 1993. Interestingly, despite the public outcry to the corruption scandals, the LDP still managed to remain the largest party in both Houses of the Parliament in the July 1993 elections. Yet, it failed to prevent the formation of a coalition government of the opposition parties.

This change within the political environment seriously undermined an important feature of the Japanese regime, as it no longer held comprehensive political power as it had before, undermining vital regime internal links between politics, bureaucracy and business.



Overall, the end of the LDP's one party rule also had considerable implications for the bureaucracy, as it had to re-position itself within a changing political environment, characterised by a period of political realignment where former and well established relationships no longer guaranteed the same level of financial return, in terms of entering into a political career after a bureaucratic career, as was the case during the period of the LDP's one party rule. This undermined the internal coherence of the regime further.

Nevertheless, the challenge for regime stability increased as the bureaucracy, a pillar of the regime, came under intense public scrutiny.

11.3.2 The Bureaucracy: the fall from fame

To understand the magnitude of change as to the declining status of the bureaucracy during the 1990s, it is important to be aware of the central role the bureaucracy held in post-war Japan. Preceding the 1990s, Japanese society attributed the bureaucracy as a civil service with high moral standards, characterised by extraordinary professionalism, untarnished by corruption scandals and with a dedication to serve the whole nation, hence being immune to singular interests.

Yet, the economic depression from the early 1990s onwards and the seeming in-activity and in-ability of the bureaucracy to manage this situation, in conjunction with several corruption scandals, eroded public confidence in the bureaucracy. The above-mentioned Recruit scandal was one of the first cases, which also involved members of the bureaucracy and shattered the view the population had held of the autonomy of the bureaucracy from particular interests.

However, it was a prelude to what was to come. In the event, the bureaucracy faced criticism surrounding the circumstances and eventual bailout of the domestic financial institutions (jusen) with taxpayer's money, especially as two ministries (Ministry of Finance and the Ministry of Agriculture, Forestry and Fisheries) were directly involved.

In particular, the reputation of MOF suffered during the 1990s, as it appeared to be unable or unwilling to manage the fundamental problems Japan's financial sector was confronted with, prior to their decision for using public money for the bailout. The problem of non-performing loans reached significant proportions during the 1990s, and at one point threatened the very foundation of Japan's financial institutions to such an extent that a collapse of the entire Japanese financial system was no longer perceived as impossible. Overall, it was not before 1998 that the government decided to act and to set up a special bank which dealt with these non-performing loans.

Indeed, it seems, as emphasised by Kubota, that MOF's ineffective supervision of Japan's financial institutions contributed to the economic bubble and its ultimate rupture. Nor did it help that MOF allowed the accumulation of vast amounts of non-performing loans within these financial institutions in the first place (Kubota, 2000, pp.190-1).

Another extremely damaging scandal involving the bureaucracy, one persisting for over ten years, reached its climax in the late-1990s. This scandal was related to the use of HIV-contaminated blood for blood transfusions. The argument put forward was that though the Ministry of Health and Welfare was aware of this situation, the Ministry, by not acting according to public interest, instead helped to protect the enormous profits made by the pharmaceutical industries.

Then a natural disaster, the Great Hanshin Earthquake or Kobe earthquake as it became known, occurred on the 17th January 1995. It cost the lives of over 6000 people and

destroyed about 250.000 homes and was one of the worst earthquakes to hit Japan in decades. The slow-reaction and perceived un-coordinated response of the administration stirred up a public outcry, which was directed towards the bureaucracy. First, it took some time to mobilise the SDF; then water supplies were disabled, hindering the efforts of fire crews to tackle the many fires in the aftermath of the earthquake. Finally, when foreign rescue crews arrived with specially trained dogs to search the rubble for survivors, with time the essence to find survivors, they were told that their dogs were not permitted, as according to regulations they would need to be quarantined for one month. Such events harmed the reputation of the bureaucracy further and undermined the public view of its capabilities in the eyes of the Japanese society.

However, the bureaucracy also faced intensified pressure from the business sector, which became frustrated increasingly with bureaucratic regulations and interference in businesses, especially in the context of its growing internationalisation. In order to understand the decline of the bureaucrats' influence within the Japanese business and industrial sphere, the influence of global trends were also crucial. The internationally active sector of the business community increasingly rejected the bureaucrat's influence. As noted by Sugimoto,

the obstructive nature of the bureaucratic regulation became more evident in the 1990s with the prolonged recession, the appreciation of the yen, and the increased domestic demand for relatively cheap imported goods (1997, p.205).

The international, especially US, pressure to liberalise and open Japan's domestic economy to foreign investments added to undermine the bureaucracy's position and cooperation with the business community. The regime found it increasingly difficult to take into consideration the increasing plurality of interests within the Japanese business community.

In addition, the bureaucracies' ability to provide capital for economic development was reduced and with it a mechanism to facilitate business and industry compliance. These financial incentives were especially critical at times when capital was in short supply and it was not before the mid-1970s and early 1980s that Japanese business became gradually independent from these financial sources. However, as parts of Japanese business became increasingly successful internationally, which was in turn based on the success of the regime, they were able to borrow from international banks and finance institutions as well. As such they were no longer dependent on the incentives provided for them by the regime but equally no longer bound to follow its instructions either, which added to the declining influence of the regime. As pointed out by Ikuta, MOF's leading position became something of the past, as it could no longer cope with the contemporary and unanticipated challenges (1995, p.89).

These developments not only damaged the reputation of the MOF, but also added to public distrust of the capabilities and motives of the bureaucracy in general. Yet, it is crucial to note, that part of this development is connected to the success of the political-bureaucratic-economic regime, in modernising Japan's economy and being instrumental in increasing the international competitiveness of parts of its industry.

Hence the bureaucracy faced an almost comprehensive downturn in its acceptance as an independent actor which undermined its ability to act. This in turn had a negative impact on regime stability as well as it led to a weakening of important regime internal linkages.

11.3.3 The business community: no longer a unified community, as selective interests prevail

As parts of Japan's economy became more competitive internationally during the late 1970s and early 1980s, the discrepancies within the economy became manifest. As the successful and internationally competitive sector of the economy sought further liberalisation of the economy to open its domestic market to foreign investment; this placed them in conflict with the domestic oriented sector of the economy, which still favoured a closed economy.

The end of the Cold War was another crucial development that initiated not only changes within the international system but also had an adverse impact on the US's willingness to continue to accept the trade deficit with Japan. Although the US had already become less willing to accept the huge trade-deficit with Japan during the early 1980s, the end of superpower competition meant that the trade issue developed into a serious political concern between the two countries. This put extraordinary pressure on the political-bureaucratic-economic regime with the implication that a fundamental restructuring of various aspects underlining Japan's economic system was necessary.

Despite that the international environment offered economic opportunities, over time and in tandem with the success of Japan's businesses to penetrate foreign markets, the international environment became a source of increasing economic conflicts, especially as Japan resisted opening its home market for foreign business.

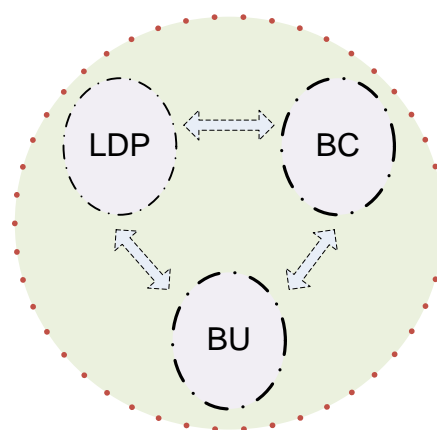
Yet with this economic success a new duality within the Japanese economy developed, one characterised by an export-oriented, highly competitive and productive sector and a domestic oriented less competitive and less productive sector.

11.4. Conclusion

To understand the implications of the challenges the Japanese political-bureaucratic-economic regime faced from the early 1990s onwards, it was emphasised that both a long-term frame of analysis as well as a holistic approach should be adopted. This is not to deny that each individual development had a vital impact on the regime's stability. Such developments can be identified as follows: the breaking up of the largest faction within the LDP and the subsequent forming of a coalition government that led to the end of the LDP rule in 1993; the increasing number of corruption scandals; the seeming inflexibility and inability of the bureaucracy and the involvement of parts of the bureaucracy in corruption scandals, as well as a dire economic situation and outlook, especially when compared with the 1980s. Taken together, these events undermined the reputation and legitimacy, not only of specific parts of the Japanese regime, but had crucial implications for the whole regime.

Overall, the evidence suggests that the regime was no longer able to respond to the challenges Japan's economy faced. Yet, though an apparent weakness of the regime can be identified from the early 1990s onwards, it is imperative to note that it was the same regime which not only provided a successful response to earlier challenges of the two oil-crises of the 1970s, but had formulated a successful strategy for modernising Japan's economy transforming Japan from a second-class economic power in the aftermath of the Second World War to a leading nation. However, a crucial difference to earlier periods of economic retrenchment was that from the early 1990s onwards, the regime's fundamental pillars - the LDP, the bureaucrats, the business community - either faced fundamental internal challenges or underwent an intense period of change. Figure 48 presents a graphic description of the process of change of the Japanese regime, indicating that by undermining the coherence of the central pillars of the regime and their respective relations, a process of change of the regime itself can be identified.

Figure 48 – The unravelling of the Japanese regime (Ploberger, 2012, p.15)



Chapter 12 – Japan: summary

In analysing the success and failure of the Japanese political-bureaucratic-economic regime, it is essential to take a long-term frame of analysis. This is not so much as to counterbalance failure with success, but rather to recognise that the earlier success of the regime laid the foundations for a number of the challenges it faced in later periods. Hence, the Japanese case provides a good example that success can also ultimately undermine a regime. In addition, it also illustrates that a regime does not have an indefinite lifespan.

As for the Japanese regime, the data presented highlights the success of the regime in reaching its goals of transforming Japan into a leading industrialised country and for a significant period Japan was second only to the United States. Indeed, Japan of the late 1980s was a world away from the devastated post-war country of the early 1950s, which had been described as semi-industrialised. Thus one can rightly argue that the Japanese regime succeeded in fulfilling more than a century old national goal, originating in the Meiji reforms, that Japan should become a modern and powerful nation. However, this success generated a set of circumstances for the regime, which in combination with other developments led to a process of regime change.

To begin with, in reaching this goal of national development, as mentioned above, the regime eroded the generally accepted consensus on which it could mobilise unity among its members and one which was also accepted within the society. Thus, a regime will need to develop a new vision and to decide on a new agreement about a future

course of action to legitimise its continued existence. Yet, without an indication of a new emerging consensus, failure to do so will undermine its relevance and ultimately result in the loss of the regime's internal coherence, a process the Japanese case clearly highlights.

Second, the early 1990s witnessed further processes of change, which also contributed to the erosion of the internal coherence of the regime. One such instance is the end of the political dominance of the LDP. It was the pressure from the electorate for electoral reforms, supported by younger LDP Diet members, which were more sensitive to these demands as they were in a rather weaker electoral position, coupled with the unwillingness of senior LDP leaders to reform, which led to the break-up of the Takeshita faction. This in turn resulted in the loss of its dominant political position, as members of the former Takeshita faction formed a coalition government with opposition parties. The loss of power also undermined the LDP-bureaucracy relationship as the bureaucracy faced the possibility that it had to work with other political parties as well. Hence, a critical source for the LDP's loss of power can be identified in internal party dynamics and the inability of the LDP to keep factional dynamics from undermining its internal coherence.

Third, the challenge the regime faced did not end here as the highly respected position of the bureaucracy was weakened within the society as it lost the respect it once enjoyed within Japanese society. This also weakened its position within the regime. From the late 1980s onwards, various developments adversely affected the previously high levels of competence associated with the bureaucracy. These were sparked by the involvement

of members of the bureaucracy in corruption scandals, and the slow and seemingly uncoordinated response of the bureaucracy when faced with a series of catastrophes - the Kobe earthquake and the case of the HIV infected blood scandal. Hence, the bureaucracy was no longer viewed and respected as the 'guardian of national development' as they had been before. Suffering these setbacks also undermined the bureaucracy's reputation within the regime. Especially the business sector became a progressively outspoken critic.

Fourth, an increasing plurality of interests emerged within the business community as well as a growing willingness to accept the same extent of bureaucratic influence as in previous periods. This pluralisation of interests within the business sector developed over time into a clear division between an internationally competitive and highly productive sector which contrasted with a less competitive and productive domestically oriented sector. Another crucial difference within the business sector emerged as to the issue of the extent the Japanese home market should be open to international competition. It was the international success of the Japanese business sector, which felt the pressure most to open the closed Japanese home market to foreign investment as they were confronted by an increasingly hostile international business environment. This in turn led the sector to argue in favour of opening up the Japanese domestic market, which brought it into conflict with the domestic business sector that favoured upholding the status quo. This matter was further complicated since the domestic business sector provided an important source of votes for the LDP.

Nonetheless, it would be misleading to assume that there had been no fundamental

conflicts within the Japanese regime previously. After all, the regime not only faced serious economic challenges such as the two oil-crises of the 1970s, but was also confronted with a process of social change and modernisation, which reflected its success. However, these early crises did not undermine the regime's internal stability. What makes the crisis of the 1990s different, with regard to the endurance of the regime, was that it led to pressure for change as the various pillars of the regime were in the process of losing their internal coherence. This pressure amplified over time, especially at it seemed that the regime was no longer able to respond adequately to the serious economic challenges and consequently became viewed as inactive and incapable of responding to a fundamental economic crisis, which further undermined its legitimacy within the society. These developments form a sharp contrast to the regime's ability of managing earlier economic challenges. Yet, many of the challenges the regime faced in the late 1980s and early 1990s were a result of its earlier success.

For example, the increasing pluralisation of interests within both the business community and society, which contributed to undermining the internal coherence of the regime, was a result of the regime's successful modernisation process. As society and the economy underwent a fundamental process of change, the interests became both increasingly plural and more divergent, making it gradually more complicated for the regime to integrate and reconcile them. The strong growth orientation of the regime became a prominent issue despite parts of the expanding urban population becoming increasingly concerned with issues related to environmental degeneration and the poor living conditions. Hence, once again, it was the earlier success of the regime, which led to questions of its continued relevance. Thus it is essential to emphasise the importance

of success as an underlining feature of every regime; as a regime neither naturally develops nor just exists, rather a regime exists in the context of serving the interests of its members, yet at the same time its success undermined its internal coherence.

Although the developments from the early 1990s onwards presented a fundamental challenge in its own right, they were merely a catalyst of an ongoing process of undermining the regime's stability. Certainly, these developments increased the visibility of the regime's increasing internal weakness, which crucially developed prior to and because of the regime's success. Significantly, the Japanese political-bureaucratic-economic regime was confronted with an increasing intrinsic dilemma, indicating that the regime faced a changing environment, which reduced and undermined its capabilities to respond to this new environment.

Consequently, one can argue that the Japanese regime, although being successful in implementing its economic development goal, outlived its relevance and we can now observe a process which was earlier described as a regime change; a change of the regime and not merely a process of change within the regime. Yet, the dynamic process of forming a new regime is still underway. This again underlines the crucial importance of taking a long-term frame of analysis as well as a holistic approach to complex political change. Indeed, a partial focus or a specific emphasis on a particular period will distort considerably our understanding of the process of complex political change.



The above discussion of the nature of the Japanese state offers a valuable reminder of the fundamental impact a particular national context has for state development and on regime formation. It also reminds us of the structure-agency dynamic, but also the ability of strategically acting agency to overcome a particular structural setting when pursuing its goal, with the dynamic which led to the breakup of the Takeshita faction providing a primary example. Alike, the emerging diversity of interests and consequent weakening within the business community, based on the divergent interests of internationally and domestically active companies, provides another example. In both cases, the existing structural environment, that is, the existing regime, no longer was able to contain their readiness to advance their own strategic interests, even as the same structural environment still exerted a strong impact on them, at least as long as the regime did not begin to unravel. Hence this demonstrates the capacity of agency to act consciously and strategically accordingly to its intentions, and thus not being a prisoner of its structural environment, additionally that agency interacts within a particular strategic environment.

PART IV - GENERAL CONCLUSION

Chapter 13 - General Conclusion

The focus of this thesis is on analysing complex political change, specifically, to understand the complex processes underlying non-revolutionary change by employing the concept of regime change.

Regime as applied in this thesis refers to a middle level of cohesion in the political economy of a nation state. To that end, it should be reiterated that both a holistic approach and a long-term frame of analysis is required, as the dynamic of non-revolutionary political change is a complex and sometimes prolonged process.

As stated at the beginning, applying the concept of regime, as it is understood in this thesis, offers a distinctive approach for investigating complex political change as it allows a focus on the following characteristics of complex political change: why change occurs in the first place; the driving forces behind it, and how we can identify the impact of domestic and international factors in that process. It was further stated that only when an analysis focuses on changes within a specific political-economic setting, defined as regime, will we be able to determine the extent and dynamic of political-economic change that occurs over a specific period of time.

The argument presented is that in identifying the occurrence and dynamic of regime change it will allow us to acknowledge the existence of divergent causal processes of

complex political change within a particular state, since the process of regime formation is situated in the context of a particular state. However, applying the concept of regime change, which focuses on the extent and dynamic of change, and by distinguishing between regime shift (change within a regime) and regime change (change of the regime) provides a more nuanced understanding of the relevant processes of change.

This also draws attention to the relevance of the state as a structural entity with implications for regime formation; after all, even as we can identify a process of regime change - the disintegration of a regime - the state continues to remain in place. Since a regime refers to a middle level of cohesion, to the consistency, and predictability of a state's political economy over time then its distinctiveness from the state itself is identifiable. However, since the state constitutes the more permanent structural entity, a regime refers to the specific nature of a state, even a regime itself is a foremost structural entity in its own right.

Applying the concept of regime change, as understood in the context of this research, has its merits because the investigation into complex political change is directed at specific regimes instead of the state as a whole. In this approach, it not only avoids a common confusion, namely that between the state, a system type, and regime as the focus of analysis is often directed towards analysing the extent to which a particular political system changes towards another (for example from authoritarian to non-authoritarian rule). It should be mentioned that, the extent to which one political system changes towards another comprises a different research agenda.

Consequently, employing the concept of regime change will enable us to develop a critical insight into the political-economic system of a country and to identify the dynamic of change related to it, which is situated in the structural context of a particular state. As such it will also enhance our understanding of the state as a structural entity, but also the underlining dynamic and nature of interactions between structure and agency for the relevance of complex political change. It should be mentioned that a regime is a structural entity in its own right, yet in the context of a particular state.

To highlight the utility of the concept of regime change as well as its wider application, two distinctive case studies were selected: China and Japan.

As discussed in the literature review, China's reform process draws considerable attention for a variety of reasons. Among them is the role the state plays in economic development and with it a re-invigoration of the discussion of the role of private and public goods in facilitating economic development; it leads to a re-assessment of the belief that a 'big bang' approach is superior to a gradual reform strategy; it also challenges the widely held assumption of a co-existence of an authoritarian hierarchy and a liberal market economy; that authoritarian systems are inherently fragile.

Each of these debates raises questions about the nature and dynamic of change we can observe with regard to the existing regime in China. It equally reminds us of the above mentioned common fallacy of not distinguishing between the state, a system type and a regime since various assessments of China's development progress are linked to the question to what extent China has moved towards a democratic system. As stated above,

such a focus on the change from one political system to another has its merit but it should not distract us from analysing complex political change which is not inevitably linked to such a process.

Indeed, the Chinese case study does highlight the value of such a distinction as the result of inquiry will differ significantly if one only focuses on the occurrence of change from one political system to another since such an enquire would either ignore or undervalue many of the actual changes which occurred during the reform process; this would distract us from concentrating on critical developments of complex political change. Hence, if we focus on the issue of system change, which is often implicitly done, our evaluation of China's reform process would be rather narrow in its outlook, despite that considerable change did occur. In addition, such a focus may also mislead us about the very nature, origin and dynamic of complex political change, since the focus of such an enquiry differs considerably. Here again the Chinese case study provides some insight into this problem.

Essentially the reform/opening process constitutes a particular response to the political and economic challenges the existing regime faced at a particular historical period. The underlining consensus the regime is built on, namely socialism, was under considerable threat by the dire economic situation China was confronted with. After all, a stated goal of the regime was that socialism provides not only an alternative but a more successful avenue of economic development than capitalism. Yet, if socialist inspired economic growth could not surpass capitalist based growth, this consensus would be challenged and could even have undermined the regime's dominant position. The impact of the

Cultural Revolution also undermined the regime's position. As such the reform/opening process was a political strategy in response to these challenges with the aim of enhancing economic development and consequently the reputation and stability of the regime; as a fundamental change of the regime was never on the agenda.

By applying the concept of regime change, we can identify various aspects of change, which would either only marginally be recognized, if at all, by employing a system focused analysis. What's more, by differentiating between regime change (the change of a regime) and regime shift (change within a regime), additional sensitivity for the dynamic of complex political change is enhanced. It is worth remembering that change represents a continuum from partial adjustments to a fundamental breakdown. That a crisis does not merely comprise a moment of impending break down, but a strategic moment of transition in state and regime development.

With regard to the Chinese case study, even as regime change did not occur, we can identify various changes which indicate that a regime shift had occurred. These changes include alterations and new theoretical inventions within the consensus the regime is based on. This is significant because if the regime would abandon the three fold guiding principles, namely Marxism, Leninism and MZT, it would deprive itself of its political legitimacy and the rationale for its dominant position in Chinese politics, consequently opening the possibility for regime change to occur.

Another indication of change is linked to adaptations to the public-policy profile as the existing socialist planned economy was blurred with market economic features and a

formerly closed economy was opened to international trade and investment. As China became a major destination for international trade and investment with eventual admission to the WTO, these developments not only lessened the regime's ability to steer the economy via an interlocking command structure but also introduced a structural transformation of the economy.

In this regard we can also identify alterations in its political-economic and institutional setting which were generated by the demise of the rural commune system and the administrative change which took place in China's rural economy; as the existing political-economic institutions which characterized the rural economy and dominated rural lives before the onset of the reform process were replaced. Yet, the introduction of village elections is a specific case in point that highlights the relevance of applying the concept of regime change, since the introduction of village elections is a top down process, an instrumental response to the increasingly unstable situation in various parts of rural China and with the commune system gone the regime lost some considerable leverage within the rural areas. Hence, village elections do not represent an awakening of the rural population in pursuit of democratic reforms as some have predicted.

Taken together, these changes indicate a remarkable capacity of the existing regime, when faced with a crisis situation, and markedly distinguishable from the developments in Eastern Europe and the former Soviet Union. However, we are equally reminded on the impact the existing structural environment, the particular national context, has on future developments since a basic transformation of the existing regime was not an option at all.

Yet, whereas in the Chinese case the regime was successful in addressing a serious crisis situation, the evaluation of the Japanese case is markedly different, as it demonstrates that a regime became a casualty of its own success.

In the Japanese regime, the data presented highlights the success of the regime in reaching its goal of transforming Japan into a leading industrialised country. Indeed, Japan of the late 1980s was a world away from the devastated post-war country of the early 1950s, which sometimes has been described as semi-industrialised. Thus one can rightly argue that the Japanese regime succeeded in fulfilling more than a century old national goal, originating in the Meiji reforms, that Japan should become a modern and powerful nation. However, this success generated a set of circumstances for the regime, which in combination with other developments led to a process of regime change.

To begin with, in reaching this goal of national development, the regime eroded the consensus on which it could mobilise unity among its members and one which was also accepted within the society. Thus, a regime will need to develop a new vision and decide on a new agreement about a future course of action to legitimise its continued existence. Yet, there are no indications of an emerging consensus, and such a failure will undermine its relevance and ultimately result in the loss of the regime's internal coherence.

Yet, the regime was confronted with additional challenges, as the three pillars it rested on, the LDP, business community and bureaucracy, experienced critical challenges.

The political dominance of the LDP was eventually challenged from within the party, in response to external demands as an increasing part of the society agitated for a change of the electoral system which was seen as facilitating an increasing number of serious corruption scandals. This led to a split in the biggest faction of the LDP and consequently to the loss of political power for the LDP. This particular episode also reminds us of the relevance of the structure-relational approach for analysing the structure-agency dynamic. After all, it was the perceived strategic interests of particular actors (younger Diet members of the Takeshita fraction, which were vulnerable to election defeat if the demand for the change of the electoral law would be ignored) who decided to overcome the structural setting which in the past privileged the LDP and the existing fractions within it. Yet, even as they challenged this structural environment they could not bypass it, but instead introduced a partial reform and with it altered the strategic environment they faced. In doing so, a vital pillar of the regime, the LDP, was weakened, indicating a first sign of regime shift.

This process alone, as serious as it was, may not have led to the regime change in the Japanese case, yet in concert with other changes it did. Among them was the fall from grace of the bureaucracy, which until then was highly valued by the society and fulfilled a critical role within the regime by positioning itself as an intermediary between the politicians and the business community. The bureaucracy had a critical role in implementing the strategic economic goal of the regime. Yet in seeing its status undermined as an elite group within society, who was perceived as being independent of particular political and business interests also undermined its position within the

regime. This contributed to a dynamic which undermined the internal coherence of the regime, and consequently a process which witnessed the occurrence of regime change.

Still yet another development, the increasing plurality of diverse interests within the business community, a pillar of the regime, contributed to this process of regime change. The economic success of the regime contributed considerably to this increasing plurality of interests within the business community as the internationally focused sector of the business community was no long willing to be constrained by the reluctance of the regime and of the domestic section of the business community to keep the domestic market closed to foreign investment. This matter was further complicated since the domestic business sector provided an important source of votes for the LDP.

The two case studies also remind us of the relevance of the structure-agency dynamic for analysing complex political change. Such an observation will add additional insight into the value of selecting the strategic-relational approach as it allows for a dialectical understanding of interactions between structure and agency, without favouring either of them but at the same time appreciating their interdependence. Hence both case studies highlight the ability of agency to overcome a particular structural setting, like in the case of China in the successful reformulation of parts of the consensus the regime was built on, or in the case of Japan, when members of the Takeshita faction decided it in their strategic interest to separate from the LDP. Yet at the same time both agency responses were formulated in the context of a particular structural setting.

What's more, the dynamic of the reform process indicates, as discussed in the

theoretical section, the capacity of agency to act consciously accordingly to its strategic interests in the context of a particular structural setting which does limit the options available. It indicates that agency is neither captive of a particular structural setting nor completely independent from it in making decisions. In addition, we are also reminded of the fundamental impact a particular national context exerts on regime formation and regime dynamics.

Hence, by applying the concept of regime change we can generate additional insight into the process of state and regime development, and in turn on the occurrence and dynamic of complex political change. At the same time, we are sensitised towards the limitations of applying one reform strategy as a blue print for other countries, though important insight for economic development can be identified. It also reiterates a position often advocated but sometimes forgotten, that there is more than one pathway for national development and it is the concept of regime change which helps us to understand and identify these variations of state development.

Applying the concept of regime change for investigating the process of complex political change also impacts on another discussion, the role of the state in facilitating economic development. Since a regime constitutes a particular structural entity within the political economy of a state, the issue to what extent public or private goods are better suited to generate economic development becomes a secondary concern, since a regime can and will employ both to implement its goals. This also provides additional insight into a position outlined in the theoretical section, that we should overcome the rigid division between private and public and more readily accept that state and market

are not opposing principles; indeed they are both complimentary in the drive for economic development and will be employed by a regime. Consequently, the focus should be on the quality of state intervention, instead of debating the extent of state-market interference. Both case studies remind us of this with the concept of regime change providing an avenue of relevant inquest.

Thus, the argument presented in this thesis is that the concept of regime change provides a conceptual framework for analysing these differences in the context of a coherent approach which can be applied to a variety of different case studies. Two distinctive case studies, China and Japan, were selected to highlight that applying the concept of regime change illuminates the process of complex political change across a wide range of diverse case studies.

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