

Culture, Economic Style and the Nature of the Chinese Economic System*

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Abstract

In recent economic research, culture has received growing attention as a determinant of institutional change and growth. East Asia and China in particular have been frequently identified as cases in point. However, most analyses operate with an essentialist notion of culture, as in the notorious case of "Confucianism". This paper proposes a network approach to culture, which is defined as a perceived pattern of a set of constituent units, and which is continuously negotiated among socio-economic actors. In the context of economics, culture can be related to "economic style", which was proposed as a descriptive instrument by the elder hermeneutic and historically oriented German school after the settlement of the "Methodenstreit". These concepts are applied to the Chinese case. In a tour d'horizon, a series of potential constituent phenomena of a "Chinese economic style" is scrutinized. I achieve a set of general descriptors, in particular localism, networks, culturalism and modernism. These descriptors transcend dualistic approaches to economic systems and allow to identify historical path dependencies and continuities across systemic ruptures.

1 The renaissance of culture as an analytical concept in economics

China's WTO entry has substantiated expectations that her economic institutions and practice will eventually converge to global standards. However, as the accession agreement only defines a set of formal institutions, these expectations beg the question whether, in spite of being a necessary condition for global convergence, formal convergence is also a sufficient condition. The case of post-war Japan clearly demonstrates that economic practice in a country with full formal convergence can still display features which are perceived to be sufficiently deviating to trigger recurrent attempts at a systematic explanation (cf. Pascha 2004). In such explanations, one concept is especially prominent: culture.

In the recent two decades, the concept of culture has attracted attention by a growing number of economists. Apart from the case of Japan, this interest is mostly driven by the historical experience of institutional change in developing and transition economies. However, the concept remains fuzzy, and in particular the empirical reference is very often phenomenological, that is, culture is introduced as an observational category closely related to certain historically informed perceptions of the respective societies. With regard to East Asia in general, and China in particular, this is very

often the so-called "Confucianism" hypothesis. Starting out from such sweeping generalizations about complex modernizing societies, the related debates mostly end up with no definite conclusions, if only because the phenomenology dissolves on closer scrutiny (Rozman 1991).

This tendency to apply overly broad conceptual approaches to culture can also be observed in economic theory. For example, a favorite approach is to distinguish between "collectivist" and "individualist" societies from a theoretical point of view, and to assign observed economies to a certain point in a continuum between the two poles (Greif 1994, 1997). In management science, there is a more diversified view of culture which mainly results from the tremendous impact of Hofstede's (1991) contribution. However, as his classification of cultural types along a limited set of bipolar distinctive features is most effective in classifying organizational behavior, there is almost no repercussion on the analysis of economic systems.

The problem with culture, it seems to me, is that everybody agrees that culture is an important factor in human societies, but that in the moment when it is introduced into the analysis, culture becomes a methodologically suspect category because it is a "deus ex machina" that exogenously explains everything – and hence nothing. In anthropology, these conceptual muddles with culture¹ have been the reason why a growing

¹A useful survey of the anthropological debate is Brumann (1999). Brumann finally votes in favour of retaining the concept along

number of researchers have even avoided the term altogether.

In this contribution, I wish to propose an approach to culture which integrates different perspectives in the literature and which I call the “network approach to culture”.² In this approach, culture is related to a certain emergent pattern in a network of cultural phenomena, which are themselves of a highly diverse nature, and may even not be “cultural” when considered in isolation. “Culture” in the ordinary understanding of the term refers to cognitive reflections of this emergent pattern as compared to perceived patterns across a set of different societies, and which are shared by a majority of observers. This implies that culture is a multi-level phenomenon and inheres processes of observation and reflection, i.e. is a phenomenon that emerges from communication about certain phenomena of social interaction, since only communication can give rise to common cognitive patterns among large numbers of actors (apart from genetically endowed commonalities). This network approach allows to account for the following facts about culture (cf., amongst many others, Wimmer 1996):

- Culture is by no means a monolithic and static phenomenon. Especially in developing and modernizing societies, culture is undergoing constant change which operates through the reshuffling and reinterpretation of certain constituents of culture.
- Culture is a behavioral category that is disposable to negotiation in the sense that individual interest can be shaped by culture and at the same time cultural categories can be instrumental for individual interest.
- Culture is a category of meaning and therefore open to individual and social processes of interpretation, which are themselves embedded into culture. Thus, in a mathematical sense, cultural change is a frequency-dependent phenomenon, that is, culture manifests a strong interaction between individual behavior and the distribution of behavioral patterns in a certain population.
- Culture is omnipresent in the sense that the constituents of culture can be highly diverse, as for example organizational culture, local custom, artifacts or informal institutions. This implies that culture as

a network pattern is maintained and reproduced via highly diverse and evolving mechanisms, although the emergent outcome of the interaction between these constituents maybe perceived as clearly recognizable and stable in time.

- Culture, finally, is a phenomenon of difference, which implies that its perception is relative to the standpoint of the observer who even creates cultural distinctions autonomously. In particular, culture serves to draw boundaries across groups, which are arbitrary and endogenous precisely because there is no “objective” anchor of the differences.

What does this list of aspects of culture imply for our Chinese case? Evidently, reference to “Confucianism” and related concepts does only pinpoint particular interpretive schemes which are used by internal and external observers to understand the patterns of social interaction that they observe. We need to go beyond these schemes and to “deconstruct” culture into an open list of constituent units, which in the Chinese case can include such diverse items as the organizational culture of the Chinese political system, local cultures in different regions, or socialization in Chinese families. Every constituent unit can change in a partly independent way, such that a constant remix of culture is taking place and has to be accounted for.³ “Chinese culture” may be something on which the majority of participating and outside observers agree, yet this common scheme does not reflect the entire set of constituents which cause this common perception to emerge. Scholarly enquiry needs to unearth these constituents and possibly relate them to the synthetic schemes that are used in political and societal discourse.

Indeed, in the Chinese debate about the tremendous changes that have taken place in the 20th century, culture plays a towering role, if only to recede sometimes in the background of more specific analyses. The discourse about modernization as cultural change continues unbroken up to today, and frequently culture is the conceptual pillar upon which even the economic explanations of Chinese “exceptionality” rest. Hence, exploring the role of culture in economic transition has direct implications for the development of indigenous concepts of economic and social order.⁴ This is also evident from

similar lines as I argue below. Jones (1995) offers a related reflection from the economic historian’s point of view.

²This is closely linked with recent cognitive science approaches to culture (DiMaggio 1997) which relate culture as an external and observable social pattern to certain “connections” between sets of different cognitive schemes, i.e. which assume a mapping between phenomena external and internal to the mind; for a systematic exposition, see Strauss and Quinn 1997. This provides what economists would call a “micro-foundation” for cultural analysis. In economics, such a micro-foundation could harmonize with an endogenous preferences framework, which, however, is still not the mainstream assumption; see Bowles 1998. For a systematic economic treatment of the relation between institutions and cognition, see Mantzavinos 2001.

³This deconstruction of culture is also implied by contemporary modernization theory, which for a long time worked with the assumption of linear change from “tradition” towards “modernity” that was assumed to correlate with the emergence of a universal “modern personality” shaped by values such as individualism and autonomy. In the context of Chinese anthropology and psychology, the Taiwanese scholar Yang Kuo-shu (1989, 1996) introduced a pluralist view of both tradition and modernity, such that traditional elements can be arranged in different patterns of modernity.

⁴To quote only one example: Kang (2003) argues that most Western forecasts of crisis in China failed because they did not take into account the special conditions of China, and in particular of the cultural determinants, which he characterizes by features like “immanentism” (*tian ren he yi*), “moderation” (*zhong yong zhi dao*), or a special relation between “elitism” (*jingying zhu yi*) and “populism” (*yi min wei ben*). These determinants cause a special relation between institutions and dynamics to emerge. This is a positive assessment of Chinese culture, which is also explicitly linked with a nationalist framing of reform policies. In contrast, Chinese intellectuals frequently saw Chinese culture as a fetter to dynamism, and invested considerable effort to solve the resulting contradictions; for an

the discourse over Confucianism as the root of a global pattern of “Chinese capitalism“, which raises many intricate questions regarding the analytical separation between “culture“ and the underlying economic determinants and material interests, which may result into uncovering culture as a more or less ideological veil (Dirlik 1996).

In this paper, I wish to contribute to this vast topic by arranging a plenitude of diverse observations into a common pattern, seeking an answer to the simple question: What is the nature of the Chinese economic system? Beginning with a short survey of economic concepts of culture, I turn to the phenomenology of the Chinese case. My approach is to relate the cultural analysis to an old concept in the mostly forgotten hermeneutic tradition of economics, viz. “economic style“. I discuss phenomena such as the peculiar role of ideology in Chinese transition, the tension between local and central forces, and the interaction between cultural diversity and diversity of governance structures. My argument proceeds in a kaleidic and narrative way by design, only to extract generalizations in terms of “economic style“ in the last section.

2 Economic approaches to culture and “economic style“

In recent research, economists have developed their own conceptual approach to cultural phenomena. The most important building blocks are:

Formal and informal institutions. This distinction is now well received in (new) institutional economics and originates with North (1990), although the concept was not fundamentally new. Informal institutions are maintained through social sanctions which are not imposed by formal organizations and are not conserved in written form. One of the typical assumptions is that formal institutions can be changed by government fiat, whereas informal institutions change slowly and endogenously, which feeds back on formal institutions and causes the path-dependency of their change. Informal institutions always raise the issue of second-order sanctions working on the individuals who voluntarily sanction deviant behavior, and thereby stabilize them.

Mental models/cognitive schemes. In more recent theoretical approaches to institutions cognitive factors have been emphasized. Institutions need to be supported by perceptions of regularities in social interaction, hence have a cognitive root. Furthermore, these cognitive schemes must be shared among agents, so that they have similar expectations about the behavioral effects of institutions. Again, North has launched a debate on these “shared mental models“ (e.g. Denzau/North 1994). Systematic approaches have been based, among others, on Gestalt theory (Schlicht 1998), which provides an explanation for widespread “framing“ effects in individual

choice. Mental models present a solution to the problem of second-order sanctions in informal institutions, because they work as an internalized constraint on individual action, such that low-cost sanctions are sufficient to keep deviant behavior within certain guardrails.

Routines. The concept of routines mostly refers to intra-organizational regularities in social interaction, however, since organizations also impact on their environment, it is reasonable to assume an interaction between organizational culture as pattern of routines and culture in the economic system. This idea is especially prominent in evolutionary accounts of technological change, which emphasize the embeddedness of technology in social institutions (e.g. Cimoli/Dosi 1995). Routines differ from both the concepts of informal institutions and mental models, because they relate to the tacitness of structures of social interaction, hence are non-cognitive phenomena.

Social norms and emotions. Some authors draw a clear distinction between social norms and institutions, because social norms include regularities which might be non-functional for social interaction, as for example eating habits (Elster 1989: 97ff.). Social norms, hence, fulfil the criterion of cognitive arbitrariness that is crucial for culture to work as an efficacious device to separate groups. However, at the same time they are fixated through internal behavioral bindings, in particular emotions. Only recently, economists have also begun to pay attention to emotions as a potential anchor for regularities in social interaction, in particular as commitment devices (Elster 1998). In cultural analysis, emotions may provide the basis how frames are coordinated across different actors, and how types of social interaction coalesce to structurally separate social spheres, as in the demarcation between legitimate pecuniary and non-pecuniary transactions.

In our approach, all these constituents are not to be equated with “culture“ proper. Only the systematic pattern emerging from the simultaneous existence of a set of them qualifies as “culture“, once it becomes the object of the emergence of shared perceptions in communication. Culture is the “meaning“ (“Sinn“) of a set of informal institutions, social norms, routines etc.

In economics, there are two fundamentally distinct, yet mutually compatible ways to organize these building blocks into a coherent whole.

- The first one is to provide a behavioral and psychological foundation, which would imply that the rational actor hypothesis of economics needs to be modified. This is very often implied by results of experimental economics, which demonstrate that there are normative constraints on human action which cannot be fully explained via the ordinary rationality hypothesis, and possibly even show that these normative constraints vary across different hu-

man groups. The latter case may be explicitly subsumed under the heading of "culture".⁵

- The second one is to maintain the rationality hypothesis and to relate culture with certain patterns of constraints under which actors take their decisions. These constraints can be both external and internal. The most important example for the former are informal institutions which are stabilized via spontaneous sanctions, in which case "culture" would be a mere conceptual shortcut for the interacting interests behind observed regularities of behavior, which, for example, can be analyzed with the help of game theory. Internal constraints are frames or "shared mental models" which might be distinguished analytically from the previously considered behavioral approach because the origin of these schemes is external, namely residing in communicative processes that lead toward a certain "definition of the situation". If this "mental model" is stabilized via communication in groups, we might speak of "culture", although the rationality assumption still holds.⁶

Against the background of the previous section, these are the two alternatives how a network approach to culture can be rooted in fundamental behavioral assumptions of economics. Properly spoken, culture must be dissected in the different economic constituents listed above, i.e. informal institutions, mental models etc. Yet, in the economic framework a concept is still missing that operates on the same level of abstraction as the concept of "culture", viz. which relates to a pattern of constituent units, and neither to any single of them, nor to the behavioral roots. In other words, how can sets of mental models, of informal institutions and other items be arranged in a way so that their relation can be identified on the systems level: For instance, which pattern defines the "Japaneseness" of the Japanese economy, apart from the set of constituent units such as a special pattern of supplier networks?

In this regard, modern economics seems to be conceptually anemic.⁷ This was particularly true in the hot stage of the transition epoch, because the dominant conceptual schemes were dualistic, as the main challenge was to pursue the way "from plan to market". This dualist thinking implicitly grouped all planned economies and all market economies in one systemic type, respec-

tively, only to trigger the debates about different transition approaches and their possible causes related to different starting conditions, which also include institutional features. Dualism also implied a strong convergence hypothesis, namely that the economies of the world would converge toward one "best practice" type of market economy. This strong convergence hypothesis immediately caused resistance under the heading of the "diversity of capitalism" literature (e.g. Berger/Dore 1996), and was, however, further supported in the aftermath of the Asian crisis. There is no systematic approach to coping with systems diversity on the descriptive level, although many causal hypotheses about the emergence and preservation of diversity are ready at hand (e.g. Aoki 1996). This seems to be related to the general strategic emphasis in economic research on hypothesis formation and testing, and the almost complete neglect of taxonomic work, which played an important role in older traditions of economics, as in the German Historical School.

Indeed, in order to better organize the constituent units of cultural analysis in economics, I wish to go back to an old concept of German-language economics, namely the concept of "economic style", which was developed in the 1920s by authors such as Arthur Spiethoff and exerted a strong impact on the conceptual design of the German "social market economy" by authors such as Müller-Armack.⁸ As this German policy concept is closely related to Christian values, Müller-Armack was strongly interested in the impact of religion on the institutional shape of economic systems. Hence, "economic style" is easily to be integrated with cultural analysis. Indeed, there is a direct relation to the cultural sciences, because the economic term was consciously borrowed from the humanities, where "style" refers to the perceived common esthetic patterns of expressive action. Hence, "style" is not simply an observable phenomenon, but emerges from the relation between observer and observed, and is identified via the contemporary and the historical discourse about these perceptions. From this perspective, for example, the "German social market economy" qualifies as an economic style.

Obviously, the "economic style" echoes a forgotten tradition in economics, though not in the social sciences, namely the hermeneutic approach, as the old authors were deeply rooted in a "geisteswissenschaftliche" tradi-

⁵A distinction has to be made between universal normative determinants of behavior in experiments, and culturally specific ones. Smith (2003) assigns the former to a general concept of "ecological rationality": Biologically rooted procedures to reach decisions under uncertainty economize on scarce psychoneural resources and are related to contextual factors, which are mirrored in culturally specific schemes. A much-quoted study on cultural differences in experimental behavior is Henrich 2000.

⁶An example for this kind of view is Kuran's (1995) theory of private and public or publicly displayed preferences, which are stabilized by rational considerations of the costs and benefits of conformity.

⁷There is no space to discuss the reasons for this here. Suffice to quote Potts (2000) foundational work, as he demonstrates that modern neoclassical equilibrium analysis starts out from field concepts borrowed from physics, which do not allow to consider structurally incomplete networks of relations among actors. Such "non-integral systems" bring the issue of structural descriptors to the fore. In the broader context of the social sciences, this perspective can be related to morphological approaches as proposed by Archer (1995). In economics, one promising approach has been proposed by Aoki (2001) who starts out from a taxonomy of knowledge forms to distinguish between types of institutions.

⁸To quote some classics in German, see Spiethoff 1932, Müller-Armack 1940 or Sombart 1930. I am not aware of any English translations of the relevant texts; however, as some related English selections from Müller-Armack's works show, there is a fundamental problem of translation here, namely that the crucial theoretical distinctions in German between "Wirtschaftssystem", "Wirtschaftsordnung", "Wirtschaftsstil", "Wirtschaftsverfassung" etc. are muddled by just translating "economic system" in many cases.

tion of research, which was almost completely broken after World War II. In their thinking, "economic style" was explicitly linked to the idea of "contextual" or "intermediary theoretical concepts".⁹ Spiethoff, for example, argued that in economics, "general theory" should always be distinguished from "particular theory", which he called a "historical theory". The former refers to hypotheses the scope of which is not limited in space and time, as for example the marginal theorems, whereas the latter refers to patterns of the economic process which are specific to certain places and times. These patterns are reconstructed through a creative act of the scientific observer, such that the "economic style" is not simply a description, but a theoretical statement. This act is not arbitrary, but starts out from a taxonomic tool-case, which allows to systematize the different possible aspects of basically singular economic styles. For example, Spiethoff distinguished "economic spirit", "natural and technological foundations", "constitution of society", "economic constitution" and "economic dynamism", which he further differentiated into constituent criteria, as, for example, the differentiation of "economic constitution" into "property rights regime" and "regulation of production". Universal hypotheses of economics may apply, for instance, on a particular mechanism of allocation, yet this is not sufficient to characterize a historical economic system of which this mechanism is only one part.

If we look for modern equivalents of the idea of "economic style", the closest approach can be found in the "national innovation systems" literature, which is based on an evolutionary argument.¹⁰ This comparison leads towards an important extension of the "style" idea. "Economic style" is primarily a descriptive concept. To turn it into a hypothesis about institutional change, we need to take into account how economic styles emerge and how they stabilize in time. The important insight that can be get from the Newly Industrializing Countries literature is that international competition among systems is one of the crucial driving forces: economic styles are selected by their competitive performance. At the same time, however, the internal mechanisms of stabilization need to be scrutinized. One of the crucial mechanisms linking external and internal forces is state capacity to regulate conflicts among winners and losers of institutional changes via redistribution in the broadest sense in a way that does not jeopardize international competitiveness. In this vein, contemporary French regulation theory can also be regarded as an approach akin to the concept of "economic style", which focuses on the issue of institutional stability and crisis of economic systems (for more detail, see Herrmann-Pillath 2000b). One fundamental result that can be reached from these perspectives is that there is no necessary historical trend

towards institutional convergence, but a dynamic competition among evolving styles, which manifests moving competitive advantages of styles in time and space.

Now, what is the relation between culture and economic style? I propose that we focus the concept of culture on the role of meaning in the perception of the economic system by the participating and observing actors. Meaning emerges from a dynamic relation between signs and objects, such that the economic constituents of style are included in the concept, yet without being necessarily cultural in nature. What counts as "culture" is the way how people perceive the arrangements between these constituents, how they reflect about these patterns, and how this creation of meaning feeds back on actual institutional evolution, especially via the creation of semiotic embodiments of the dynamic cognitive relation between observer and constituents (for example, the German Bundesbank as an institution was always perceived as a symbol for monetary stability and as a cornerstone of the "social market economy"). In other words, culture catches the hermeneutical dimension of the concept of style, and cultural analysis makes the embeddedness of economic structure and process into systems of meaning explicit.

Finally, how is culture linked with economic performance, such that feedback mechanisms can be identified which finally contribute to the reproduction of cultural patterns? The performance link can be quite similar to the case of another hotspot of economic research in the last decade, that is social capital (cf. Dasgupta 2000), because culture seems to be one determinant of trust, both in the sense of systems trust and personal trust. Trust, in turn, is a crucial determinant of transaction costs in the economy and, hence, of performance. Thus, economic style may reflect both the performance dimension and the cultural sources of a particular pattern of economic system.¹¹

How does culture contribute to trust? With reference to systems trust, culture coordinates expectations of actors about the working of institutions and thus reduces uncertainty. In this sense, transition is always cultural change because it uproots expectations. In this regard, important constituents of culture are cognitive schemes that are shared in the majority of actors who are affected by institutional change, and which may be systematized in ideological and other belief systems. Personal trust is fostered by culture because cognitive patterns of different mechanisms (of) securing the success of transactions exert a force of coherence such that certain informal institutions are stabilized, and diversity of individual behavior is reduced. In particular, culture induces a convergence of meanings in communication, so that personal relations are more transparent and communication is more reliable.

⁹"Intermediary theoretical concepts" have gained a certain significance in the methodology of Chinese studies via Daniel Little's (1992) work, who draws most examples from the economic realm.

¹⁰On "national systems of innovation" see the collection of papers edited by Edquist and McKelvey 2000. The relation among these concepts and "economic style" is extensively discussed by Ebner 1999.

¹¹A comprehensive treatment of trust in the economy is Nooteboom 2002. Noteboom emphasizes that trust cannot be based on calculatory reason and is strongly dependent on the subjective perceptions of governance structures in social interaction.

To conclude this very brief survey on the role of culture in economics, my methodological conclusions are that in cultural analysis we need to collect data and information about particular constituents of an economic system which can be arranged into a systematic and meaningful pattern. This pattern should be reflected in perceptions of the participant and observing actors. Hence the first step in cultural analysis is akin to ethnographic work, which is informed by economic theorizing about the general constituents of culture. We arrive at the construction of intermediary descriptors, which grasp the singular, yet central features of the economic system. This set of descriptors defines the economic style. Let us now explore how style and culture can be extracted from observations on the Chinese economy in transition.

3 The role of ideology in Chinese transition

I begin my exploration with the most simple constituent factor, the role of ideology in the political self-description of the economic system.¹² As is well known from theoretical analyses of reform processes, the political economy of transition is very much dependent on the expectations that concerned actors form about the future state of the system (Fernandez/Rodrik 1991). Many contributions in the literature treat this determinant as if there was an objective, risk-weighted measure for the future results of reforms. However, and in particular with reference to such encompassing reforms as complete system changes, this assumption cannot be taken for granted. Economic theory supposes that one condition of successful institutional changes is the implementation of mechanisms of compensation between winners and losers of reforms, so that resistance of losers can be smoothed.¹³ This, however, requires the expectation that the institutional arrangements governing these mechanisms themselves are stable, which precisely is not warranted in the case of wholesale systemic changes. Thus, expectations are highly subjective assessments of

possible future states of the system, which have to face fundamental uncertainty. They will be strongly influenced by the conceptual and communicative schemes prevailing in social discourse over transition, which create particular frames of perceiving transition. Transition is a fundamental test of system trust, and ideology can be one of its important determinants.

In the Chinese case, the simple fact cannot be overestimated that Chinese transition was not communicated as a transition to a fundamentally different economic system before the 16th Party congress. Even then, China continues to define herself as a “socialist“ system, and the nature of systemic change is covered by minimalist and cryptic concepts such as the “three represents“.¹⁴ The Chinese state is perceived as being stable and hence, in principle, capable to arrange compensation among different groups affected by the reforms. Ideological continuity was therefore a crucial factor in stabilizing expectations and possibly reducing the anxieties of potential losers.¹⁵

This basic fact has to be seen against the background of the dynamics of Chinese reforms, which constantly shifted the roles of winners and losers in the short-term. For example, SOE workers only drifted into the losing position in the second half of the 1990s, with the state sector actually expanding employment until 1997.¹⁶ It is interesting to note how ideology is exploited to organize and vocalize the concerns of affected groups, with the most conspicuous example being the SOE pensioners in recent times, who legitimize their protests by emphasizing their past contributions to building the socialist state (Hurst/O’Brien 2002). Ideology enables them to directly voice claims against the state, whereas other groups cannot draw as easily on the symbolic repertoire of the prevailing ideology, like migrant workers. Political control of the media and of spontaneous social movements prevents the emergence of systematic counter-ideologies or heterodoxies. Hence, even protest movements by pensioners contribute to ideological continuity, precisely because they legitimate their claims by the reigning ideology.¹⁷

¹²Ideology is a factor that is much emphasized in North’s (1990) theory of institutional change. In earlier writings, North simply assumed that relative prices (costs and benefits to maintain an ideology) determine ideological change. In 1990: 84ff. he argued that the perception of relative prices is itself mediated via ideologies, which implies that ideologies assume a partly autonomous role in institutional change. As we shall see, the high degree of adaptability of ideology in the Chinese case greatly reduced the costs of maintaining ideology, which in turn had an impact on the perceived costs of institutional change.

¹³The World Bank (2002) puts the role of winners and losers of transition at the core of its? political economy analysis of the decade of post-socialist transition. However, there is no discussion of the role of ideology and public opinion, apart from the discussion of the impact of different political systems.

¹⁴Lewis and Xue (2003) analyze how the “three represents“ formula was incrementally imbued with the meaning of far-reaching changes in the social foundation of the CCP political supremacy, as epitomized in the opening of the Party to private entrepreneurs. This is a typical example of the role of symbolic expressions in the dynamics of Chinese political culture, where meanings are implicitly negotiated between the public and the political leadership, and political action very often is only systematized in formal descriptions of institutions *ex post*. Pye’s (1988: 80ff.) observations on the cultural sources of flexibility in China still seem to apply today.

¹⁵A more elaborate analysis of this point would follow Dixit’s (1996) transaction cost approach to politics, which interprets the relation between populace (multiple principals) and government (agent) as a set of implicit contracts. Wholesale reforms affect the capability of the government to commit itself to these contracts, hence raising the political transaction costs of institutional change.

¹⁶See Yang Kaizhong et al. 2003, who emphasize the positive role of the expanding state sector piggybacking the growing private sector in the “two-track“ system of early transition. In spite of efficiency losses, the resulting effects on the social and political costs of transition should not be underestimated.

¹⁷Ideology, even if it is no longer taken for serious, is a constraint as well as a symbolic resource for the formation of public opinion. In the recent evolutionary approaches to politics, public opinion is regarded as a prime determinant of policy evolution, see Wohlgemuth 2002. In the analysis of Chinese transition, public opinion is a neglected topic. One exception is Holbig’s (2001) magistral work on the

However, just seeing ideology as a direct expression of authoritarian rule would be oversimplified, given the fact that even official ideology is apt to undergo far-reaching changes that reflect structural changes in Chinese society. The role of ideology in China can only be understood clearly if ideology itself is seen as being embedded into a cultural frame. To my mind, the notions of orthodoxy versus heteropraxy that have been coined to describe the peculiar tension between Confucian state ideology on the one hand and local and popular subculture in Imperial times on the other hand are still very useful. Orthodoxy did not preclude diversity of practice, as long as this diversity expresses itself in orthodox terms. For example, the bewildering diversity of local beliefs and religious practices in China was never simply suppressed, but often integrated into a bureaucratic pantheon which, as a cultural construct, precisely maintained the actual political hierarchy. Similarly, local diversity of marriage customs co-existed with the propagation of Confucian family norms. Of course, behavioral diversity always contained the seeds of heterodoxy, yet this presupposes the availability of a repertoire of symbols that eventually organizes heteropraxy into practiced and self-aware heterodoxy.¹⁸ Hence, symbolic dominance of the political center was the pillar on which the Chinese body politic was built (Cohen 1994). Quite in a similar fashion, in contemporary China, the socialist orthodoxy allows a bewildering diversity of actual forms of socio-economic organization, unless this does not find expression in heterodox ideologies. This is the main reason why the Falungong movement finally met with such a severe suppression by the Chinese government. The Falungong is a spiritual movement directly challenging the modernist ideology underlying the Chinese state, because it is supported by precisely those groups in urban society who play an important role in the structural modernization of Chinese society.¹⁹

Remarkably, this tension between central symbolic power and local diversity of beliefs is gaining strength again in the Chinese countryside, where a vigorous revival of traditional religious practice is taking place and is closely related with a reconstitution of local commu-

nities in the fabric of Chinese society. This trend seems to link up with the broken tradition of the secular trend of localization of social power that took place in Imperial China.²⁰ To a certain extent, these changes are sheltered from the direct intervention of the modernist state, just because peasant society is regarded to be on a lower civilizational stage than urban society. Upgrading the "quality" of the rural population is still a large-scale educational task (Murphy 2004). Paradoxically, this allows for an increasing diversity of practice in local belief systems, unless there is a direct challenge at the political supremacy of the Party, as in the case of Muslim communities.²¹

Thus, we may identify localism as an important aspect of the cultural frame of ideology in China. Localism is the outward expression of the creative tension between orthodoxy and heteropraxy which still lies in the heart of the cultural relativity of ideology in China, and is the root of the so-called "Chinese pragmatism". As we shall see, localism is a cultural reflex of institutional fragmentation, which can be most usefully interpreted along the lines of Duara's concept of a "cultural nexus of power".²² Beyond the surface of the systemic juxtaposition of models of political organization such as "democracy" and "leninism", the cultural nexus of power refers to the emergence of contingent patterns in the brokerage of power resources between the local and the central level. How these patterns mirror some general social structures, is a core question of research. In the first place, localism raises the issue of the unity of the Chinese nation, and hence, the question how economic transition is related to the secular process of Chinese state-building.

4 Cultural diversity and the unity of the Chinese nation

Whereas the dominant political ideology was and still is a unified system of meanings for which political actors claim exclusive authority, there are many reasons why

Chinese inflation in the eve of the Tian'an men citizens' movement.

¹⁸Feuchtwang (1992) is a succinct statement of the merger between subversive and official symbolism in traditional popular religion, with both local and central forces competing over the authority to define the meaning of symbols, as in the case of the City God. In Herrmann-Pillath (2000a) I argue that there is a baffling parallelism with the mechanisms of symbolic control of traditional religion in Imperial China and the central control of information and data in modern China, where local autonomy finds expression in the manipulation of statistics, which only formally suggests an integration of method and result.

¹⁹Most observers agree that the Falungong is a distinctly modern movement, in spite of its root in traditional qigong practices. Chan Chervis (2004), for example, argues that it is "new religious movement" that fills a vacuum of values between socialist ideology and traditional Confucian norms. Chen (2003) describes how the political conflict over Falungong has been cast into the language of scientism and modernization.

²⁰Dean (2003) offers an intriguing perspective on the cultural complexity of local religion in contemporary China. He argues that the increasing diversity of local practice in Imperial times went hand in hand with the localization of public responsibility and authority. This is precisely what we can observe in contemporary China, too, as, for example, is evident from Tsai's (2002) study of the local provision of public goods, which shows a highly diverse picture across the Chinese communities, and a significant impact of traditional institutions (temples, lineages) at many places.

²¹Hillman (2004) is a fascinating study of how Muslim networks help a rural community of Hui to revive their cultural identity with the direct effect to organize themselves for public action, i.e. producing public goods.

²²Duara (1988, especially chpt. one) offers a concept of "power" which is closely related to my network approach to culture. He argues that to understand the way how local society and central state interact, we cannot rely on broad systemic concepts but need to understand the specific patterns of network relations that emerge between different groups of society. In particular, in his "postscript" he argues that "mediating concepts" are needed which "negotiate the area between the structural regularities of social systems and the contingency of history", which was precisely the concern of the German theorists of "economic style".

the notion of “Chinese culture“ is problematic if understood as a similarly unified system. Indeed, on the one hand there are very strong features of unity, of which the most important certainly are the Chinese script and the long history that is reflected in that written tradition, and which is widely accessible in innumerable symbolic items, topics and tales of popular culture. On the other hand, there are clear empirical facts revealing cultural fragmentation, of which the economically most important ones are the dualism between rural and urban society and the regional diversity of local societies. Both aspects of fragmentation are important from the inside and the outside point of view, and they can be related to “hard facts“ as the rural/urban income divide and the economic disparities across regions. Beyond those hard facts, institutional fragmentation seems to be concomitant to cultural fragmentation in the sense of distinctly different regulatory regimes, for example, in rural and urban social security, that go hand in hand with distinct cultural frames.

Economically, the urban/rural divide laid at the heart of the Maoist development model, which was based on the idea that primary accumulation was necessary to fuel industrialization. Although the extent to which capital was extracted in favour of industry is still debated, we can certainly say that the total amount was considerable, if we talk about industry as a sector und distinguish neatly between rural industry and urban industry, excluding the former from agriculture properly spoken. This distinction, however, has become a very dynamic one, because urbanization is spreading rapidly across the countryside. During this dynamic process, the original urban/rural divide is gradually transformed into a new divide between privileged urbanizing strata in the rural areas and the farmers actually toiling in the fields.²³

What does this imply for culture, and what does culture imply for the economy? Maoist policies had implemented a very strict separation between rural and urban areas by means of the household registration system. As a result, two different cultural regimes have emerged:

- The rural culture is strongly shaped by traditional Chinese values and informal institutions, because

communist transformation did only superficially change cultural traditions in spite of uprooting traditional social structure. Hence, after the reforms a strong revival of traditional Chinese culture in terms of the “little traditions“ can be observed, yet with considerable spatial diversity, also in classical macro-regional terms, such as the North/South distinction.

- The urban culture was much more affected by the socialist modernization program and, in particular, by the Cultural Revolution. After the reforms, with the slow transformation of the SOE sector and the introduction of One-child policies, the structural conditions for maintaining the socialist culture were conserved until the mid-1990s, such that the main force of cultural change originated from consumerism and change of life-styles. This structural change is directly supported by governmental policies.²⁴

The relation between those two Chinese cultures is strained, as, for example, is evident from the discourse over “population quality“ (Murphy 2004). They clash in the shape of the millions of migrant workers in the cities, who are citizens of a second class, and who are perceived by the urbanites as being physically (colour) and culturally different, i.e. of a lower civilizational status. Paradoxically, however, though many urbanites display the modernist outlook of consumerism, an important share of them still is imbued by socialist values, which can result in a peculiar mix between traditional attitude and actual economic interests.²⁵ At the same time, rural society undergoes a multi-faceted modernization, in which organizational hybrids emerge that synthesize different cultural constituents into local idiosyncrasies.²⁶

Cultural dualism continues to be a decisive feature of the Chinese “transition as development“ process (Kato 1998). This is particularly evident in the strange mix between state paternalism towards rural society and grassroots democracy, which is closely interwoven with the structure of interests that has emerged from the socialist accumulation model of the past. The statist modernization model especially guards the interests of the modern-

²³Increasingly, the dualism in Chinese society is conveying a sense of crisis to the Chinese public. In “Document No. 1“ of 2004 the CCP used this strong means of political communication to signal its heightened concern. The massive economic discrimination of the farmers is now openly discussed in the public, as in the “cover topic“ of the leading economic magazine *Caijing*, February 20, 2004, which is based on research of the Chinese Academy of Social Sciences. One of the social hotspots is the implicit privatization of collective land property rights in favour of the urbanizing strata, without a fair compensation of the rural communities, see 21 shiji jingji daobao 2004: 465ff.

²⁴Tomba (2004) analyzes how wage policies in administrative and service sectors, subsidized privatization of home ownership, educational policies and the liberalization of employment opportunities contributed to the very rapid rise of a relatively affluent urban middle class with distinct life styles. This middle class is coopted by the government to stabilize CCP rule. In a provocative analysis, Wang (2002) depicts the rise of a “post-communist personality“ who is characterized by hedonism without individualism, which is a cultural phenomenon of its own.

²⁵Inkeles et al. (1997) implemented a survey on individual modernity in China, comparing farmers and urbanites and especially isolating the group of farmers living at the urban periphery. They demonstrated that the most “modern“ traits could be observed with the latter group, whereas the SOE workers displayed a picture of stalled modernization. This can include traditional kinship values, as in some regions of China (in particular, the “Western“ ones) many SOE have developed into closely interwoven kinship groups resulting from a long history of internal marriage relations; on this important point, see Zhang 2002.

²⁶Just to quote one example: Hu Biliang (2004) elaborates on a Hubei case study where a modern enterprise eventually incorporated a village, even resulting in a change of the administrative name. The company management consciously implements Confucian values, yet does not directly continue village traditions. Rural cultural modernization can go hand in hand with integration into the world markets, as in this example, where even foreign investors are involved.

izing sectors of the economy, which translates into state claims of control over the rural economy. This control, however, is legitimized by the role of the modernizing state as protector of peasants against the appropriative role of intermediary elite strata in rural society (cf. Nee 2000). Grassroots democracy in the Chinese villages without democratic control of the state is perceived as an alliance between the modernizing state and the people. Paradoxically, democracy remains a promise to the urbanites that depends on the fulfilment of political development in the countryside.²⁷

Viewed from the perspective of classical marxism, the CCP rural strategy seems paradoxical because it contributes to the rise of a "petty bourgeoisie" whose economic fate depends on partial property rights to land use, and where the loss of land ownership may play economic havoc with the majority of landless workers. Partial landownership is an institutional bridge between traditional norms of socio-economic organization of the family and a core feature of rural socialism, namely equal distribution of land use rights and hence livelihood on the basis of communal ownership of land.²⁸ This is a fundamental difference to urban wage-earners, whose "socialist" claims can only materialize in job rights, whereas the rights on productive capital have increasingly become the object of trades in the emerging stock market system. This is one important economic mechanism linking cultural and institutional fragmentation, and contributing to the preservation of cultural dualism in China.

Given this cultural dualism, what is the pillar on which the unity of Chinese culture rests today? One of the most intriguing issues is the role of nationalism in the process of modernization, and especially cultural modernization. As historian Fitzgerald (1995) has remarked, China is a nation in search for a people, by which he diagnosed the cultural vacuum into which the idea of a "Chinese nation" was planted by the modernist (nationalist as well as communist) movements of the 20th century. This vacuum was an artificial result of the aggressive juxtaposition between "modernity" and "tradition" propagated by the majority of the modernist avantgarde. Hence, the only force that could represent modernity was the state, as in turn represented by the central government. The idea that the state is the avantgarde of modernization transcends the capitalism/socialism polarity and is one of the core cultural

foundations of Chinese nationalism up to the present. Compare this with the idea of the state linked with Western welfarism: In the Western industrial societies, state intervention into the economy is mostly legitimized with social policy objectives, whereas in China state intervention is rarely associated with this exclusive aim, but with the classical goal to become "rich and powerful". Today, this allows for an emerging "socialist market economy without social policy", especially in the rural areas. State support for the laggard rural areas is symbolized by this giant project of modernization, viz. "Opening up the West".

How does this peculiar brand of nationalism find an expression in institutional structures of the economy? A very important issue in this context is the fiscal infrastructure of the modernizing state. The modernist movements of the 20th century eventually suppressed the idea of a decentralized, federal model of political modernization and economic development in China, which had emerged as a potential alternative of modernization at the end of the 19th century (Duara 1993). This is true until today, when the "one country, two systems" formula precisely neutralizes the possible repercussions of factual institutional diversity for the entire politico-economic system. At the same time, some observers have explored the idea that during the reform era fiscal decentralisation actually resulted into a quasi-federal structure, which supposedly had market-creating and market-preserving effects.²⁹ If this was in fact the case, we would confront the interesting combination of a centralist political culture combined with a system of informal and semi-formal federal institutions. This centralist political culture is maintained by cultural anxieties of "disorder", which in fact mirror the lack of legal alternatives to govern a more decentral political regime. The immediate economic issue that provides the rationale for these anxieties rests upon the diagnosis of increasing regional disparities and the resulting perceived necessities to redistribute resources in favour of the disadvantaged regions, in particular the so-called "Western" ones. This is the economic and cultural tapestry of "leitmotive" which has been woven into the influential account of the decline of central state capacity by Wang Shaoguang and Hu Angang (1995) and many followers.

It is important to state that this justification of centralism is a cultural discourse without any clear relation to facts and real political action.³⁰ The amount of inter-

²⁷For illuminating accounts, see the focus in *Zhongguo gaige* (China Reform) (No. 7, 2003: 9-25) entitled: "Caogen minzhu zi xia er shang" (Grassroots democracy from the bottom up). The authors argue that a rapid democratization of the central political institutions would result in a highly unstable elite democracy that would eventually work against the interests of the rural population.

²⁸There is a growing literature on the question of the actual rural land ownership system. In a seminal analysis, Kung and Liu (1997) have shown that the majority of peasants prefer a communal land ownership system that allows to adapt the fulfilment of basic needs to the family life cycle. The results of the survey implemented by Brandt et al. (2002) question this opinion, because they also show a strong impact of government policies via the intermediate role of village cadres and their interests. Cui Zhiyuan (2005) is an influential protagonist of "petty bourgeoisie socialism" in China.

²⁹This view has become very influential through Qian Yingyi's works, see e.g. Qian/Weingast 1996. Slider (1997: 489-504) compares the Chinese and the Russian case in this regard.

³⁰A comprehensive critique of the quasi-federalist account is Tsui/Wang 2004 who show how the central government regularly intervenes into the fiscal system, such that a core characteristic of a federal system is missing, namely the stability of fiscal rights of lower level governments. Guo and Wang (2003) try to draw a comprehensive account of the interregional capital flows, which includes fiscal redistribution, credit flows and investment. Fiscal redistribution plays a limited role as compared to credit creation with a regional bias favouring the West, which, however, is counterbalanced by profit-oriented capital flows toward the Eastern regions.

regional distribution in China is still very small, and the inter-regional disparities can be explained to a large degree by rural-urban disparities, the salience of which depends on the regional economic structure (Herrmann-Pillath et al. 2002b). The “Opening up the West“ strategy of recent times is defined in macroregional terms, whereas inter-regional redistribution remains a crucial issue on the lowest level of disaggregation, i.e. within prefectures, between cities and rural areas, and across prefectures within the same provinces. This implies that the largest share of the burden to produce and provide public goods rests upon the shoulders of local governments, with profound implications for the diversity of local governance structures in the public sector (Herrmann-Pillath/Feng 2004). The provincial level seems to be of minor relevance for assessing the inter-regional dynamics of growth in China, which is, however, in the focus of “quasi-federalist“ accounts.

Hence, “Opening up the West“ appears to be primarily an attempt at reinstating the unity of the nation against the forces of cultural fragmentation, and at the same time factually accepting the fact of economic centrifugality. “Opening Up the West“ becomes a civilizationist campaign with a close resemblance to internal colonialism, which perpetuates an aspect of Chinese culturalism that was already part and parcel of the Imperial state.³¹ Beyond the material descriptions of economic disparities, what matters most is the fact of an increasing socio-cultural diversity which translates into potential disequilibria of social power in terms of regional and local nexi.³² Precisely in this regard the continuing existence of a unified CCP nomenklatura provides the main mechanism of maintaining the unity of culture via the maintainance and dissemination of particular organizational routines.³³ Content does not weigh as much as form, so that in ideological matters unity counts more than actual consensus over particular ideological positions. Hence, modernization is an educational task of a cultural, rather than a political vanguard.

5 Cultural diversity, competition among governments, and localist governance

One of the most important expressions of cultural diversity is the diversity of governance structures in China. This diversity is mostly regarded to be the result of the gradualist strategy adopted by the Chinese government, and the ensuing local experimentalism. However, this leaves open the explanation why and how the amazingly diverse local governance schemes emerge, and whether convergence to a common model is the necessary result. Basically, diversity of governance can be related to political entrepreneurship, local economic and political conditions, and local culture.³⁴ The impact of local culture should not be interpreted in terms of an unidirectional causality: That means, local culture is not necessarily the prime mover of changes, but local culture may emerge as a contextual factor during social discourse about local reform experiences and may operate as a focal point for further changes, hence causing and stabilizing phenomena of path dependency. Local culture, hence, can work as a “lock in“ factor in local economic development, and may block the forces of convergence at least in the short run.³⁵ In the Chinese discourse over transition, this point is well acknowledged because it matches vernacular tales of regional differences in mindsets and customs of the populace.

This point is evident from much-quoted examples such as the famous “Wenzhou“ model, where local culture has served as a special justification of far-reaching early privatization of the economy. The roots of this entrepreneurial tradition can be traced back to Imperial local traditions in Confucian thought. There is even a link to subethnic differentiation among the Han Chinese population.³⁶ Hence it makes sense to define the “Wenzhou“ model as culturally conditioned governance pattern, which emerged and crystallized within the context of certain natural and formal-institutional factors. The model itself works as a conceptual scheme that allows to organize the reform experience around a common perspective, and it also qualifies as a cultural item which

³¹Goodman (2004) provides a succinct overview about these topics, in particular emphasizing the aspect of internal colonialism, which by no means should be read in negative terms straightforwardly. As a civilizationist and developmental project, colonization may produce precisely those benefits which are put into the focus of the Chinese “Opening up the West“ initiative.

³²These only come to the fore when anthropological field accounts of events at certain places are considered, which dig into the meanings negotiated between the main protagonists and the official representatives. For a South China example, see Siu 1995, or for a Yi Nationality example in Yunnan Mueggler 2002.

³³The role of the CCP nomenklatura system is often forgotten in institutional analyses of Chinese transition. In many contexts, the nomenklatura as an incentive system dominates the behavior of the actors over the immediate incentives that result from filling a particular position in a particular institutional setting. Naughton (2005) argues that the continuity of the Nomenklatura is the defining difference between the Chinese and the East European and Russian transition. On the current shape of the nomenklatura system, see Chan Hon 2004.

³⁴Chung (1999, Introduction) offers a slightly different trinity of determinants, namely location, administrative context and policies, and local leadership. In a related contribution, Hendrischke (1999) also emphasizes cultural differences across the Chinese regions.

³⁵In the literature on regional innovation systems and networks, culture has been identified as one of the most important determinants of regional competitive advantage and at the same time of potential blockades to innovation, if culture freezes network structures which become an impediment to new entry of firms; for some related views, see Loasby 1999 and Lane 2002.

³⁶The city of Wenzhou is also called “ou“, which refers to the people of “ou yue“, a branch of the Yue of ancient times. Amongst other cultural items, Wenzhou was the home of the Yongjia school of Confucianism, which took position against Zhu Xi and promoted a pragmatist philosophy; for more detail, see Wang/Zhu 1996: 9ff.

³⁷The Wenzhou model has produced a veritable industry of descriptions and analyses, which help to diffuse the message; for a recent

actually disseminates across China, in particular in the Lower Yangzi delta.³⁷ The institution is the symbol. The question is whether similar observations hold true for a significant number of the Chinese regions. I do think so.

Local cultural diversity is closely related to structural diversity of local society. Chinese local society is highly differentiated, and we observe a large variety of patterns that embed politico-economic governance into local culture. Without being able to get into the ethnographic details here, I only wish to mention the strong impact of lineage systems and kinship structure on governance. In places where lineage systems are strong and concentrated, the village economy can be organized with a lineage-based shareholding structure, implying strong local roots for industry, whereas in places where atomistic kinship relations prevail, industrial firms can be much more footloose.³⁸ Lineage systems can be of particular importance for the provision of local public infrastructure, thus exerting a strong impact on the local disparities of living conditions (Tsai 2002). The economic effects can be quite different, as dense kinship networks lower transaction costs within the groups, yet raise them against outsiders.

Kinship systems are a clear example for informal institutions that are embedded into social norms and peculiar cognitive schemes to interpret social structure. As such, their relation to formal institutions is not deterministic. Very often observers diagnose a conflict between both, with lineage groups undermining public order and the local governance structure, and with extreme cases of criminal organizations taking control of the local economy.

However, as in the case of Wenzhou, culture is not only related to traditional social structures. Local cultures inhere local ideologies that emerge from the definition of so-called "models". For example, in recent times the spread of privatization from Zhejiang province to Jiangsu province met certain obstacles, just because the so-called "Sunan" model was propagated in the past as a collective model for rural industrialization and urbanization.³⁹ Dismantling the Sunan model implies the deconstruction of a central rhetorical source of political

legitimacy. Hence, "models" can be interpreted as cognitive schemes that channel political communication and thereby "lock in" certain governance structures (Herrmann-Pillath 2002a).

This does not block convergence, yet convergence might never become absolute. This is most evident from the recent privatization drive in township and village industries, which mostly takes the shape of "insider privatization". Clearly, and as will be discussed in the next section, insider privatization goes back to certain informal institutions that evolved out of the formal collective ownership system, similar to the idea of a natural possession by investing effort, money and work into a certain resource.⁴⁰ This implies that even though privatization may converge on a formal level, there will be a continuity of informal institutions that enabled the ownership transition to occur smoothly, and this will maintain differences in actual governance structures. For example, privatization is a shift of the formal focus of ownership, whilst actual governance is located on a continuum of network relations and power balances between entrepreneurs and local officials. The litmus test of the factual governance structure is, amongst others, the fiscal system at the local level, and the specific claims local government can legitimately raise against a "private company". Whether local enterprise becomes a footloose capitalist venture, or remains part and parcel of a local community that in turn undergoes institutional and organizational transition, is a path-dependent result of local history and context.⁴¹

Indeed, one of the most important aspects of governance refers to government itself. In the previous section, I have discussed the peculiar mix of fiscal decentralization and centralist political culture that has emerged from the modernization ideology of the 20th century. This raises the question about the particular nature of fiscal governance in China today. Notwithstanding the widespread notions of "quasi-federalism", we need to point to the fact that decentral structures are not maintained by formal institutions, but only by informal institutions and certain routines in the political system. These are cultural factors on their own part, such as, for instance, the special approaches to adminis-

example, see Shi et al. 2002. From a theoretical point of view, this diffusion can be described along the lines of the "Salmon mechanism", which is an alternative to the classical "Tiebout mechanism" as a framework for competition among local governments; see Breton 1996: 233ff. Feng (2001) provides a pertinent theoretical analysis.

³⁸In our extensive comparative village studies Chen/He (1997) we tried to uncover the regional structures that were systematically described for historical times, amongst others, by Huang 1990. For a summary and evaluation, see Thøgersen 2002. These structures evolve, of course, during rapid industrialization and urbanization.

³⁹The cover topic of the May 2001 issue of the journal *Caijing* features "The Sunan legend" and offers interesting background information about the ideological resilience of the "model", in spite of very early steps towards de facto privatization.

⁴⁰Li and Rozelle (2003) explore the interesting fact that in Chinese TVEs insider privatization is by far the most frequently chosen way to privatize the collectively owned companies. They provide an explanation of the mechanism of price formation (which serves to screen the capability of managers), but do not explain the prevalence as such. Following Smyth's (1997) seminal analysis, we can argue that this is the result of two determinants, namely first, the recognition of certain informal institutional patterns of de facto ownership and second, the attempt at mobilizing local knowledge on part of the managers. Smyth's institutional approach is akin to Li's (1996) theory of ambiguous property rights and related approaches, like Hu (1998). This interaction between knowledge and informal institutions can be well understood theoretically within the Aoki (2001) framework.

⁴¹Baum and Shevchenko (1999) propose a taxonomy of "local states" in China, distinguishing between the "developmental state", "clientelist state", "entrepreneurial state", and the "predatory state". Obviously, this does neither include the "welfare state" nor the "liberal state" which are the more common Western variants. The developmental state in particular maintains close symbiotic relations with private enterprise, so that the mere fact of formal privatization hides the more important political economy aspects, for an exemplary case study see Blecher/Shue (2001).

trative decentralization in Chinese communist rule, distinguishing between the administrative responsibilities of the *tiao* of functional administrative branches and the *kuai* of regional administrative units, and operating with a fragmented notion of authority, where lower level administrations are mainly governed via the nomenklatura system and its performance indicators, while taking broad responsibility otherwise.⁴² Certain social norms add to this system, in particular the notion of entitlements which result from past investments and past claims to local resources. In the early 1990s, some observers have dubbed the emerging institutional structure underlying much of the Chinese political bargaining process as a “regional property rights system“ which assigns conventional property rights to local governments at different administrative levels.⁴³ However, this “property rights system“ only classifies as an evolving set of informal institutions, and there are neither legal nor constitutional formal institutions supporting it.

From that perspective, using the term “federalism“ is a cultural misnomer, because this term refers to clear constitutional arrangements. In fact, the internal fiscal arrangements are highly unstable and undergo recurrent interventions by the central government, which applies all kinds of strategies and tactics to surprise local actors.⁴⁴ Therefore, the rule-based institutions that are the essence of a truly federal regime are missing in China. Still, this does not mean that certain entitlements of lower-level governments are not legitimate. We can speak of economic decentralization and political centralization working together in the internal governance of the public sector.

With this politico-administrative culture as a background, the notion of “government competition“ seems to be more appropriate to describe the nature of the Chinese political economy.⁴⁵ The matching twin term is “political entrepreneurship“. Government competition refers to the phenomenon of public actors in different regional and functional constituents competing among themselves and with private actors over the control of resources, with their goals co-evolving with the institutional development of the entire system. Outward expressions of the resulting dynamics are the phenomena of fiscal fragmentation, as, in particular, budgetary dualism (extra-budgetary funds, extra-system funds) and the co-existence of taxes and fees at the local level. The

central government recurrently attempts at eliminating these phenomena, however until most recently suffers from recurrent setbacks as well.⁴⁶ The fiscal fragmentation allows for the diversity of public governance structures in China, which result in locally specific schemes for funding education, roads and public utilities (Herrmann-Pillath/Feng 2004).

To understand this dynamics, the notion of political entrepreneurship is indispensable. One of the hallmarks of Chinese transition is the merger between the roles of entrepreneurs in government and markets, with government units adopting entrepreneurial roles, actors shifting between the spheres of the market and politics, and rampant corruption. As has been noted frequently, political entrepreneurs in China are providing one of the driving forces of change just because of their material interest. Apart from their direct involvement in the economy, the most important impact is through the networks between private and public actors, which allow the former to mobilize social capital to further their entrepreneurial endeavours. The result is a peculiar cultural frame for market entrepreneurship, which operates on the basic assumption of dependency from the state.⁴⁷ This dependency, however, is mediated via complex network structures that cross the formal boundaries between state and economy, and in which political and market entrepreneurs jointly negotiate the role of the “state“ as a reservoir of resources, both material and immaterial. Hence, to understand the Chinese state/economy relations it is important to understand the way how formal politico-economic structures are embedded into networks, which in turn are shaped by cultural forces.⁴⁸

6 Entrepreneurship and networks

One of the most conspicuous characteristics of Chinese economic transition is entrepreneurship. There are very deep cultural roots of entrepreneurship in China, although historically, private entrepreneurs always experienced strained relations with the government and its representatives. Again, we need to distinguish between the rural and the urban setting, and we need to pay attention to the interaction between the political sys-

⁴²These observations have been brought to the fore by the “fragmented authoritarianism“ paradigm which was developed by political scientists in the early 1990s to understand political change in China, see Lieberthal/Lampton (1992).

⁴³The term was coined by the late David Granick (1990), a fully-fledged theoretical framework of Chinese transition based on this concept is offered in Herrmann-Pillath (1991), see also Herrmann-Pillath (1994).

⁴⁴For a revealing report about those tactics, see the background in *Caijing*, No. 73, 2003: 48-59.

⁴⁵A systematic theoretical exposition of “government competition“ is Breton (1996). The concept is related to “territorial competition“, see Cheshire/Gordin (1998). For a Chinese view, see Zhou/Zhao 2002.

⁴⁶Interestingly, Yep (2004) argues that the recent “tax for fee“ reforms cannot fully tackle the problems, because they stay within the framework of the dualist modernization program. The formal integration of the tax system works in favour of the central government, such that the fiscal capacity of the local state may be weakened further.

⁴⁷For a succinct statement, see Duckett (1996) who introduces the paradigm of the “entrepreneurial state“.

⁴⁸Many authors have emphasized the need to deconstruct the Chinese state into smaller constituent units to understand the peculiar patterns of state/society interactions on the local level. To quote two examples, in their analysis of rural litigation, O’Brien and Li (2004) argue that farmers’ success depends on the mobilization of political resources in many places of the political system, such that the process of litigation itself breaks open the multi-layered structure of interests and concerns within the state. Similarly, Foster (2002) argues that an “open systems“ approach needs to be adopted to understand the interaction between state and interest groups in the context of local business associations.

tem and the economy which gave rise to hybrid forms of "cadre capitalism".

Traditional Chinese popular culture assigns a primordial social role to money even in religious contexts.⁴⁹ Accumulation of wealth is one of the pathways for securing the family line. In that sense, it is plainly wrong to diagnose a cultural decline in the increasing materialism in Chinese society (cf. Wang 2002). There is a strong continuity between the traditional concern for wealth and its modern role in transition society. I call this the cultural preadaptation of tradition, which is similar in spirit, but not in detail to the famous Weberian thesis of the religious roots of Western capitalism. Indeed, modern Neoconfucian thinkers have emphasized the strong affinity of many values of popular culture to the functional needs of the capitalist system, such as frugality, postponement of satisfaction, and loyalty (Chen Lai 1994).

If we just stay with this rather simple notion, the other question is on which social resources and capabilities entrepreneurial action can built. From the viewpoint of social capital theory, attention has to be paid to networking, which seems to be a home match for the Chinese. There is an ongoing debate about the role of *guanxi* in Chinese social organization, which gravitates around the core issue whether the salience of *guanxi* is simply a second-best functional equivalent to lacking legal guarantees, or whether *guanxi* indeed are a culturally distinct form of socio-economic organization.⁵⁰ In our context, this is not necessarily mutually exclusive because even if the former position holds true, there can be a special cultural capacity to create these second-best structures. Indeed, I would speculate that Chinese networks systematically create a higher level of mutual trust as compared to, for example, Russian networks.

Economic theorizing about the relation between networks and formal institutions has not reached any systematic conclusions for the empirical regularities, because everything depends on the particular assumptions and parameters. All theories start from the consensus that a proper functioning of markets is heavily dependent on transaction-cost saving social customs and informal institutions which generate trust among transaction partners (Platteau 1994). This is the embeddedness hypothesis on markets and networks. From this hypothesis, however, the paradox arises that it is precisely an increasing reliance on formal institutions which might eventually erode the foundations of markets (Bowles 1998). On the other hand, adverse selection might work out its course, with the networks attracting all the reliable transaction partners, and the formal sector just retaining the bad guys (Kranton 1996). Both theoretical

mechanisms work in exactly opposite directions, such that the empirics remain under-determined. Another possibility, of course, is the evil network hypothesis, where networks simply undermine formal institutions and more or less equal criminal organizations.

For the Chinese case, I submit the hypothesis that *guanxi* can be interpreted as a speway of organizing weak ties by activating a cultural focus on instrumental emotions, and by emphasizing the communicative role of networks. Their status as a cultural constituent precisely results from the fact that patterns of network relations are reflected in indigenous mental models linked to the concept of *guanxi*. The deliberate strategy to foster artificial ascriptive ties through trade in emotions is a powerful device to support economic transactions and to transfer information about transaction partners. One important symbolic medium through which emotions are traded is the flow of gifts in Chinese society, which precisely extends the grey area between official and corrupt transactions. An important effect of *guanxi* can be that formal organization becomes functionally dependent on network relations. A case in point is the opaque quality of property rights which we considered above: Network relations establish informal entitlements, and formal privatization casts these entitlements into formal rights. Formal rights, however, may never fully reflect the entire range of entitlements, such that informal institutions carry on with the network legacy. These, for example, can materialize in fiscal claims by political entrepreneurs.

As has been well noted in the literature on *guanxi*, their efficiency and efficacy result from the emphasis on long-term reciprocity, the flexibility of the ascriptive mechanisms underlying *guanxi* formation, and the capability to compartmentalize realms of social action accessible to *guanxi* (King 1994). *Guanxi* allow to extend emotional instruments for commitment beyond kinship relations. They have both the dimension of exchange and of coordinated cooperation. Regarding exchange, *guanxi* operate via strong reputation effects in broader networks of communication. The cooperative dimension emerges especially via the moral obligations that inhere a long-term personal relation. These functional aspects of *guanxi*, of course, are general properties of networks in any human society. However, in the Chinese case the strong role of mental models supporting the open expression and use of *guanxi*, the *guanxixue* (the teaching of *guanxi*) needs to be emphasized.⁵¹ Therefore, *guanxi* have to be regarded as an important subset of informal institutions in the Chinese economy which are not generalized in terms of universally binding principles. Rather, *guanxixue* is a kind of meta-institutional regime

⁴⁹I cannot go into the details here, however, I wish to mention the fundamental changes that took place in Chinese traditional culture, when late Ming and Qing economic dynamism led to a deep penetration of ordinary lives with market transactions and, hence, money. For an intriguing study of related changes in popular religion, see von Glahn (1991). I submit that this is the major reason for the fact that today even Chinese workers accept what Blecher (2002) critically analyzed as "hegemony of the market".

⁵⁰Yang (2002) is a lucid discussion of the contemporary relevance of *guanxi*. Her approach is akin to my understanding of culture, because she rejects the "essentialist" understanding of *guanxi* as a fixed cultural phenomenon, but emphasizes the historical and context-specific ways how *guanxi* are actually exploited in social interaction. The paper also has an extensive documentation of the recent literature.

⁵¹This point was strongly emphasized in Yang's (1994) seminal work. For a contemporary example of *guanxixue*, see Dong 1999.

that actually governs the emergence of specific informal institutions within particular contexts of action. Again, our discussion of informal property rights in TVEs is a case in point: There is no universally valid informal institutionalization of these entitlements in China, but the specific form of entitlements in particular villages depends on the general moral obligations and reciprocity principles of *guanxi*. In a similar vein, the political system partly works along *guanxi* principles, such that fiscal entitlements can be embedded in network relations.

From this brief analysis, we can understand the particular relevance of networks for entrepreneurial action in China. Chinese networks allow the mobilization of local knowledge, which is one of the crucial determinants of competitive advantage in a dynamic market economy. In the Hayekian view of the market, dispersed knowledge is exploited by entrepreneurs, whose actions transform local knowledge into a resource that can be used by all market actors without the need to know its content, i.e. market actors rely on the results of entrepreneurial action, but do not need to know their causes and motivations. Local knowledge at the same time works as a barrier to entry, just because it cannot be easily transformed into generic knowledge, given its complexities and idiosyncrasies. Entrepreneurial dynamics in China rests upon the fact that the formal institutional framework does not impose strong pressures on a generic transformation of knowledge, as is, for example, happening in standardization procedures. Entrepreneurial action is primarily developing through network relations, and through formal arrangements only in the second place.⁵²

Networks are an important determinant of local governance structures, such that a simple “structure/performance“ approach to explain the Chinese entrepreneurial dynamics is misleading. Networks endogenize the institutional environment of entrepreneurial action, because they are the soil on which strategic groups may form in the context of local political economies (Heberer 2001). Independently from formal democratization, China is undergoing a quick process of differentiation of interest groups. Strategic groups are still in a nascent state and have not yet built a common organizational base that allows an open accumulation and instrumentalization of resources. In networks, however, informal groups can mobilize resources, the most crucial of which are the network relations themselves and the power associated with particular network positions.

This being said, an important question is how organizational modernization concurrent with entrepreneurship interacts with network structures.⁵³ So far, I have analyzed the Chinese transition in isolation, which might imply a lopsided over-emphasis of cultural forces,

even cultural inertia. In pertinent modernization accounts, *guanxi* are directly confronted with societal macro-patterns such as the rule of law. According to this view, transition means moving from a traditional clientelist regime toward a modern legal regime, a view which perfectly matches the culturalist view of the modernizing role of the Chinese state. However, another important force of change results from organizational modernization within the market context.⁵⁴ For example, entering supplier relations with a foreign-invested company may impose changes in the upstream market organization, because certain quality control systems are implemented which de-contextualize economic transactions along the supply chain. When export production reaches a high share, these forces can even reach the Chinese countryside and link up institutional regimes abroad with the Chinese setting. Another case in point is the slow, yet continuous internationalization of the Chinese capital market, which gives an increasing role to minority shareholders whose influence cannot work through network relations because of their peripheral position. On the other hand, Chinese entrepreneurship is being globalized, which means that Chinese networks are becoming a global phenomenon. This is a favorite journalistic topic, yet there is no doubt that Chinese business transactions worldwide show a strong flavour of *guanxi*, which actually may even reinforce network practices in Mainland China.

7 Conclusion: The Chinese economic style

In the previous sections I have collected a number of observations about potential constituents of culture in Chinese transition. These observations demonstrate the source of our conceptual troubles with identifying the nature of the Chinese economic system: capitalist, socialist, East Asian? Institutional fuzziness and open trajectories of change limit the applicability of those broad descriptors. What seems to be clear is that none of them fits reality. Subsequently, I try to identify a limited set of fundamental characteristics of the Chinese economic style, as emerging from our previous observations.

I start with the phenomenon of localism. In the economic context, localism inheres notions as “regional property rights“ or “quasi-federalism“, which, however, imply a stronger role of formal institutions at the local level than we can actually observe. Rather, economic transition in China can be interpreted as the slow intrusion of nationally integrated formal institutions into the local communities where they meet with a strong

⁵²Of course, this is a description with a very broad brush. In the recent years, a number of case studies has been published in China which allow to substantiate this abstract observation in empirical terms. Frequently, these case studies show how entrepreneurs mobilize specific knowledge and capabilities in the context of their personal network relations, which, for example, may have had their formative stage in the political turmoils of the past. To quote one of these accounts of a Sunan success story, Xin 2004.

⁵³Guthrie (1998) makes a strong statement about the ‘declining significance of *guanxi*’, based on empirical research in Shanghai.

⁵⁴Huang (2003) offers an extensive analysis of the interaction between the domestic and the foreign sector in generating the total performance of the Chinese economy. He argues that the strong inflow of FDI does less reflect the competitiveness of the domestic sector, but more its weaknesses.

revival of local forces such as networking as a result of economic dynamics. Localism as a cultural feature of economic style can be identified in the parallel emergence of localized institutional diversity, local diversity of belief systems and of social organization, as well as in the institutional fragmentation of the fiscal system. Institutions and mental models may merge in peculiar phenomena such as the strong role of lineages in economic organization especially in South-east China, but are not necessarily interrelated directly. Localism is a pattern that emerges from the interaction of different constituent factors, which themselves vary across localities. If I want to generalize, I should point towards informal institutions that stabilize certain entitlements of local authorities, towards formal institutions that convey a special status to distinctly local regulatory regimes such as TVEs, and towards mental models that support the formation of local identities. The latter are a necessary complement for localism to count as a cultural phenomenon of economic style.⁵⁵

If we look for the ultimate cultural foundations of *localism*, these can be found in two characteristics of mental models and social relations in China. The first refers to what I have identified as tension among orthodoxy and heteropraxy. Chinese politics still seems to show strong vestiges of *culturalism* as a foundation of central rule. Culturalism refers to the priority given to a certain degree of symbolic homogeneity of divergent practices at the local level. Diversity of practice is cast into a distinctly Chinese discourse over experiments, models and examples of reform, which can stabilize a dominant symbolism for a long time precisely because of its focus on exceptions. Culturalism is underlying the peculiarly Chinese way to handle ideology in politics, in particular regarding the subordination of specific ideological commitments to more fundamental notions of Chineseness. Culturalism is accompanied by a deliberately “fuzzy“ approach to formal institutionalization, as, for example, in the case of land property rights (Ho 2001).

With respect to social relations, localism is concomitant to *networks*. The Chinese economy and society are a network system par excellence. This is based on a specific cultural repertoire that eases and supports the instrumentalization of networks for individual and collective aims. Networks support localism because networks are necessarily based on idiosyncratic interactions that are specific to particular individuals at particular places and times. Networks are the medium of the emergence of a multitude of local governance structures, which might be formalized ex post through privatization programs and other legal acts. The role of networks in different societies very much depends on the degree to which social relations are standardized and classified into classes of interactions and their effects, a process which is most directly achieved by means of the law. The “rule of law“ in China therefore cannot straightforwardly be related to the formal political system and its

authoritarian shape today. There is a “third realm“ of economic and social institutional regulation which is governed by network relations (cf. Huang 1993). The trajectory of institutional change will be strongly affected by the shifting balance between networks and decontextualized legal relations among actors, and less by the formal constitutional arrangements of the political system.

The countervailing principle to localism is *modernism*, because modernization to a large extent represents itself as a force that balances the localist forces in Chinese society, which are associated with fragmentation and backwardness in the modernist mindset. This was the modernist leitmotiv which was established in the 19th century and continues to prevail at the beginning of the 21st. From this, an important characteristic of the Chinese economic style emerges, namely the assumption that sustainable growth depends on a leading role of the political center. The political center constructs its legitimacy by representing the vanguard of modernization, which provides a very different definition of its role in Chinese interest politics than in Western interest group politics. This concurs with a strong dose of economic *nationalism*, which is not necessarily related with protectionism in the Chinese setting. In terms of ideology, the question is whether certain institutional regulations contribute to support sustainable growth or not, which is defined as a matter of national interest. As a result, there is no principled liberal doctrine available to support a particular design of a competitive order, but at the same time competition may not become an easy prey to private pressure groups, unless they can make a clear case for being in harmony with the national modernization project.

Chinese economic style is imprinted by growth, i.e. it is a *growth regime*. In that regard, there is a fundamental continuity between the Maoist and the reform period. Apart from the change in instruments, the difference between both stages of Communist development in China lies in the contrasting public value system. The reform period seems to reveal a moral vacuum that can only insufficiently be filled with the idea of growth as resulting in material modernization. Quantitative strategies of growth have prevailed ever since the foundation of the PRC, with the economic policy discourse over “overheating“ and “soft landing“ being a further leitmotiv of transition. Materialism, however, is not devoid of any cultural meaning, as there is a close continuity between Chinese popular culture, even religion, and the concept of wealth accumulation in the growth regime. In conjunction with the network feature, this results in *entrepreneurialism* as a dominant driving force of change in the Chinese economy which activates local knowledge in the creation of markets.

Modernization provides the legitimacy of *cultural dualism* and *cultural hegemony* in China. As has been most evident in the emergence of the *san nong* prob-

⁵⁵Methodologically, localism implies that even at the level of “economic style“ no descriptors are valid that refer to a Chinese “average“. Hence, Little’s (1992) stipulation of “intermediary theoretical concepts“ holds in a double sense.

lem, the Chinese growth model continues to rely on the traditional industrialization model, yet in a modern institutional shape. This growth model is embedded into a modernist culture that assigns a higher civilizational status to the urban sphere, yet at the same time defines the modernization project mainly as a civilizational endeavour by a central party-state detached from urban as well as rural social forces, thereby removing the typically Western assumption of an endogenous modernization drive of urban society from the indigenous modernization discourse. Instead, the modernist political system is based on notions of paternalism and education. The party state, and less the society, is in charge of modernization.

Finally, especially after the WTO entry, Chinese economic style is imprinted by globalization. Globalization implies that *networked organizational hybrids* have become a main characteristic of the Chinese economic system. These hybrids result from the direct impact of functional requirements of global economic transactions on the domestic organization of business. This impact of globalization needs to be distinguished neatly from the forces of formal institutional convergence which result from WTO entry in contractual terms. It works through many different channels such as, for example, supplier relations, foreign shareholding in Chinese companies, or outward foreign investment of domestic corporations.

Recapulating the central features of localism, networks, culturalism, and modernism, we realize that these have found expression in both the Maoist times, the post-Mao reform period and in contemporary China. There is a continuity of economic style which is masked by the emphasis on formal institutions and official ideology that is characteristic of the economic analysis of systems. Furthermore, some of these features even show a remarkable continuity with the Imperial past. These are the internal and domestic determinants of institutional change. How they interact with the external and global forces will determine the nature of the Chinese economic system in the medium and long run. This raises the important question whether and how the Chinese economic style will, the other way round, shape the global institutional structures. The WTO will be a case in point.

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