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WHY NATIONS SUCCEED: THE SOCIETY AND THE STATE

by

William Andrew Wagstaff

A Thesis

Submitted in Partial Fulfillment of the

Requirements for the Degree of

Master of Arts

Major: Political Science

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Abstract

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The state is essential to economic development because it provides the framework within which such development can either falter or flourish. Unfortunately, much of the empirical work on the subject is very limited in scope and the theory too amorphous. The case studies usually do not analyze trends prior to the state's colonial experience nor do they identify key variables, but rather incorporate many details without explaining their significance. This study aims to help fill these gaps by including the role of society. Utilizing China, I am able to trace the impact of the state and society upon economic development many hundreds of years prior to colonialism through a "within-case" analysis and then across cases through regression models. Ultimately, this study will hone current theories surrounding the state's and society's roles in economic development and provide more concrete direction for future research.

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Chapter 1

A Tenuous Relationship¹

China's latest spurt of economic growth has garnered a lot of attention from academics and non-academics alike. It also presents an interesting puzzle for economic development theory as it eschews common (i.e. liberal) development thought that is so often espoused by Western institutions. China's statist approach has renewed interest in the role of the state in fostering economic development. Effective economic development requires an efficacious state – that much is obvious. Even a cursory look at the globe reveals that effective economic development occurs almost always in areas that have stable and efficacious states. Many studies have either explicitly or implicitly begun with this proposition (Acemoglu and Robinson, 2012; Besley and Persson, 2011; Vu, 2010; Kohli, 2004; 1986; Reinert, 1999; Brohman, 1996). Efficacious states, however, are only necessary for economic development, not sufficient.

Some states that do appear to have the ability to govern somehow still fail to develop to their full potential. The question then becomes, among those efficacious states, what separates those that successfully develop from those that do not? This question requires an analysis of not only the state, but also of the society that it governs (Chibber, 2003). Such an approach requires that I distinguish economic development from mere wealth extraction, which is sometimes mistaken for economic *development*.

¹ The inspiration for this project, and the title, comes from Acemoglu and Robinson's (2012) book, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. In this paper I adopt their distinction between extractive economic institutions, in which the state is the sole beneficiary of industry, and inclusive economic institutions, which provide a fair compensation for labor so that society generally can enjoy the benefits of the greater wealth. As an aside, I wish to clarify that I am not investigating the success of nations in the ethnic sense, but rather that success of the state as a political, territorial entity. Furthermore, this study views the state as a unitary actor though the author acknowledges that this a simplification from the reality.

Often this is due to the economic growth that can occur as a result of extractive policies. As I will show, state elites (referred to here as “the state”) fundamentally desire wealth, the simple accumulation of money, as opposed to economic development. Economic development entails a shift from extractive economic institutions, such as a centrally planned economy that dictates the economic activity of the society with the goal of accumulating wealth, to inclusive economic institutions, which provides economic freedom to the society and spreads the benefits of economic growth through as large a section of the society as possible rather than concentrate it in the hands of the state elites. The collectivization of the peasants in China under Mao Zedong beginning in the 1950’s provides a good example of extractive economic institutions. Capitalist institutions wherein citizens can invest, move capital, and work however they choose provides a good example of an inclusive economic institutions. In this formulation societal pressure, in the context of an efficacious state, holds the key to economic development, which in turn holds the key to sustained economic growth.²

Simply stated, the central thesis of this project is as follows: *states will pursue wealth by extractive means until society forces the state to move towards inclusive economic institutions either through constant pressure upon the state or through revolution.* This is due to the state elites’ desire to remain in power.³ The more the society can exploit this vulnerability, the more it can leverage against the state.

² Acemoglu and Robinson (2012) find that it is crucial for states to make the transition to inclusive political and economic institutions in order sustain long-term economic growth. They fail, however, to provide a convincing explanation for shifting to and from inclusive institutions in the first place.

³ Bueno de Mesquita and colleagues (2003) share this assumption in their construction of a convincing game theoretic model that has wide ranging implications domestically (e.g. what causes bad policy) and internationally (e.g. the underlying causes of the Democratic Peace Theory).

Ultimately, the state is willing to concede ground that reduces the state's ability to extract wealth only if the alternative is to lose power completely.

The driving force for economic development in this formulation lays in the incentive structures of the state and the society which it governs as well as their relative power. As previously stated, it has been well established in the literature that an effective and centralized state is an important precondition for economic development. However, state centralization is a necessary, but not sufficient condition for economic development – it is only sufficient for wealth extraction. Incentive structures provide the sufficient conditions. This is not to say that incentive structures necessarily need to explicitly promote economic development in order to ultimately result in such an outcome. For example, a state may create an effective and powerful apparatus in order to extract wealth. While a problematic arrangement for long-term growth (Acemoglu and Robinson, 2012), such extractive institutions have the potential to foster the economic growth that can set the stage for later economic development. For instance, Mao Zedong inflicted a lot of damage to Chinese society, but left an efficacious state⁴ that not only had the ability create policy (leaving aside the desirability of his policies), but could also mobilize society to conform to that policy. Such a state served China well once Deng Xiaoping came into power and helped to foster China's subsequent economic development – however limited. Additionally, extractive policies typically foment dissent within society.⁵ This dissent can mobilize the society to push for inclusive

⁴ Vivienne Shue (1994) rightly points out that by the end Mao's tenure, China's ability to mobilize the masses had waned. Nevertheless, the state had considerably more power at the end of his tenure than at the beginning and Deng Xiaoping managed to reconsolidate his hold on the society by making a few concessions without significantly compromising the state's power.

⁵ Just look at Vietnam, China, or South Africa today for examples.

economic institutions. In this way, extractive institutions are a precursor to inclusive institutions.

Table 1: Key Terms

Term	Definition	Example(s)
<i>State</i>	The sovereign governing apparatus of a given territory not subject to any other external international authority	(1) The United States of America Federal Government (2) The People's Republic of China Government in Beijing
<i>Society</i>	The group of people that they are subject to the policies of the government	(1) The citizens of the United States of America (2) The citizens of Nigeria
<i>Extractive Economic Institutions</i>	Economic institutions designed and run by the state for the purpose of accumulating wealth for the state	Economic central planning and collectivization under Mao Zedong in the 1940's, 50's, and 60's
<i>Inclusive Economic Institutions</i>	Provides the society with the economic freedom to choose and directly benefit from their own economic activity	Capitalist economic institutions found in much of the Western world
<i>Economic Development</i>	The shift from extractive to inclusive economic institutions	The market reforms implemented in China after Mao Zedong died that enabled greater economic freedom for the citizens of China.

This approach to analyzing the causes of economic development has a number of important benefits. First, previous studies have gone to great lengths to show that

political and economic institutions have important consequences for economic development. None, however, have satisfactorily explained *why* such development occurs in the first place, especially given the incentives for wealth extraction that drive state behavior, as I will more fully explain later. By analyzing the society, this study shows that the initiate conditions for economic development lie within the desire of the society for inclusive economic institutions. Second, my approach will be able to account for variations in economic development by incorporating the relative power relationship between the state and society. This assertion requires substantial theoretical foundation and so will only be made explicit after discussing the opposing incentive structures that influence the state and society. Simply put, the degree to which the society can leverage against the state determines the degree to which inclusive economic institutions will develop. The greater the leverage the more fully such inclusive institutions will emerge.

Third, differentiating between wealth accumulation and economic development helps to clarify economic development as well as incorporate the social and political dimensions of development. Wealth accumulation cares nothing for social and political development and is, in fact, often detrimental to those processes. Analyzing economic development, defined as the shift towards economic freedom and maturity, helps to speak to the concomitant social and political development occurring at the same time. Thus, economic development can be more directly linked to the modernization project generally. This ability enables this project to speak to the debate concerning the relationship between social, political, and economic development, such as how they are related and whether any are a prerequisite for the others - an important issue raised by Samuel Huntington (1968) that is still a source of debate. Differentiating between the

social, political, and economic development, while analytically useful, obscures the degree to which they are intertwined.

To better understand the problem at hand, I will next examine the composition, goals, and means of exerting influence available to the state and society. Their goals create incentive structures that condition their behavior. Generally speaking, these actors' goals are in conflict. Thus, what matters most is the relative power distribution of each actor. The vast state-centric economic development literature will enable me to readily identify some of the key sources of state power. The literature on economic development, unfortunately, has not explicitly paid as much attention to the role of society and so I must rely on other fields for my investigation. Identifying the salient features that affect both state and societal power will greatly aid my later analysis by identifying key areas upon which to focus.

The State and Its Power

This discussion of the state will begin with perhaps the most famous formulation of a state. According to Max Weber:

...a state is a human community that (successfully) claims the *monopoly of the legitimate use of physical force* within a given territory. Note that 'territory' is one of the characteristics of the state. Specifically, at the present time, the right to use physical force is ascribed to other institutions or to individuals only to the extent to which the state permits it. The state is considered the sole source of the 'right' to use violence (2007: 78).

The distinction about the *legitimate* use of force is an important one to remember. This definition does not preclude other violence from occurring within said territory. Indeed, many states have had or are currently experiencing widespread violence within their borders, but the key difference is that the state's use of force is recognized as legitimate

and that it has the means to at least control non-state violence within its borders (Waltz, 1979). This monopoly on violence has important uses.

The state uses this monopoly to enforce property rights and extract revenue, which are key ingredients for economic development (North, 1981; Levi, 1988). Revenue extraction can occur under both extractive economic institutions through the direct coercive intervention of the state and inclusive economic institutions through the use of effective and reasonable taxation. The state, in the absence of societal restraints, will constantly pursue revenue extraction through extractive economic institutions. Property rights enforcement really only becomes relevant once society has gained enough power to create inclusive institutions. These inclusive institutions, however, still require sufficient state power to enforce their inclusive policies. Thus an interesting dilemma emerges. The society needs the state to be powerful enough to enforce inclusive institutions. This power becomes problematic, however, if the state is not compelled by society to use it for inclusive policies. For example, the United States has a lot of power, but it is generally used to promote inclusive policies since the state is beholden to the society it governs.

Defining the state in terms of an enforcing mechanism enables me to trace it through time despite its evolving particulars. The state apparatus will be that which maintains the law and order in a given territory. In areas with rampant violence that cannot be controlled by the state, then both the state and society in that area are greatly weakened and the state approaches a “failed state” status.⁶ This points out another interesting state-society relationship. An effectively functioning society requires an

⁶ Failed states are those states that no longer have the ability to govern their territory and are typically characterized by rampant demographic issues and violence.

effective state, but only insofar as the state does not oppress the society. The initial condition of the state-society relationship will be that the state extracts from society, but the ideal relationship involves a state characterized by inclusive economic institutions that provide the framework for the society to flourish and develop. Now that I have established what I mean by the state, I will discuss the goals of the state.

The state desires two things: first, to secure its position in the international system, and second, to secure its hold on power domestically. The state is worried about both internal and external issues (Sachs, 2012). Wealth is a necessary prerequisite for international security and so the state tries to extract as much wealth from society as it can (Bratton, 1994). In an anarchical international system, it is important for the state to have a strong economy insofar as a strong economy promotes a strong military (Mearsheimer, 2001). A strong military is a prerequisite for security and survival (Waltz, 1954; 1979). This desire to be more powerful and secure, or at least better off, generally permeates international relations theory.⁷ This international reality, coupled with the elite's desire to remain in power, provide compelling incentives to the state to extract wealth from society. Wealth extraction provides the state with the necessary revenue to secure its borders, or even expand. In short, more revenue means that the state can become more powerful. Domestically, the state extracts wealth to perpetuate its rule and run itself. In some cases, though, society may have sufficient leverage to curb the state's extractive policies. Before moving on to the society, however, I will first identify the key aspects of the state and how it exerts influence. Doing so will provide analytical clarity

⁷ Though not always explicitly addressed, most of the theoretical literature in international relations revolves around how the state can best secure itself either through self-reliance or how to resolve collective action problems in order to cooperate – whether through international institutions, changing discourses, or some other means.

when seeking not only to measure the power of the state, but also delineate it from the society. State power can be divided into two categories: soft power⁸ and hard power.

Soft power in this context refers to the legitimacy of the state. The state's legitimacy directly impacts the society's willingness to obey the state in the absence of force. The greater the state's legitimacy, the more willingly society will obey the state; the converse is also true. Previous studies have confirmed the importance of the state's legitimacy in fostering economic growth. In Nigeria, for example, the state failed to centralize legitimate authority in the state, the results of which are easy to see to this day (Kohli, 2004). It is thus crucial for the state to bolster its legitimacy to ensure its political survival and efficacy.

States can bolster their legitimacy through a variety of means. Gerschenkron (1962) observes that the Soviet Union's state managed to maintain its hold on power, despite its unpopularity among the society, by spreading the notion that the Soviet state provided a crucial function in ensuring the society's economic well being. It sought to emphasize the necessity of industrialization and pointed towards a bright future. Selling this story to the society helped legitimize Communist rule and perpetuated societal support for the Communist state. Authoritarian regimes in particular must actively confront the problem of legitimization due to the relative deprivation society suffers under such regimes.

Authoritarian states typically deprive their citizens of voting, free speech, and free press. Some citizens, though, may benefit from the state's extractive policies even if they are not included in the state itself. China provides an important example of this. Many

⁸ While on the surface, this conception of soft power holds many similarities to that of Joseph Nye's, soft power in this case is projected inward toward the state's society while Nye's is projected outward towards other states.

people in China are benefiting from China's economic growth despite the absence of economic development. Such people may be happy with the current state of affairs. The vast majority, however, suffer greatly under China's extractive policies and protest, often violently (Moore, 2009). Pervasive state corruption exacerbates the society's qualms. Corruption undermines the society's faith in the state, increasing the probability of disobedience and protest. These protests become particularly dangerous if they organize around a central goal in opposition to the state, such as inclusive political and economic institutions.

In order to bolster their legitimacy, states – specifically authoritarian states – have a number of tools at their disposal. White (1986) points out four strategies: (1) implementing superficial elections, (2) “political incorporation” where the state allows the dissenting sections of society to join the state in order to silence them, (3) “associational incorporation” where the state subsumes the most vocal organizations in order to silence them, and (4) allowing and publishing critical letters in media outlets such as the state newspapers. Indonesian presidential elections under president Suharto in the 1970s provide an example of the first strategy (Liddle, 1973), as do Chinese elections today. In addition to these four strategies, ideology can play an important role in legitimizing the state's rule.

Ideology often takes the form of nationalism. Kohli (2004) observes that nationalism can help the state's ability to mobilize labor, while the lack of it can impede such efforts. For example, Brazil's “shallow nationalism” after World War Two hampered the state's ability to organize and mobilize labor, which subsequently harmed economic growth. The state can help foster nationalism, but it often requires a “national

crucible” (Kohli, 2004: 334). National crucibles involve existential crises that pose a threat to both the state and society that forces both to unite under a common banner, such as a foreign invasion or resisting colonizers. Nigeria, for example, never experienced such a national crucible, which made it difficult to find a foundation upon which nationalism could form. China, on the other hand, has experienced a large number of national crucibles around which a robust nationalist sentiment has formed (Vu, 2010). Often, however, the state must be careful when creating nationalist sentiment as it could make it difficult to change course later if necessary.

Hard power has a comparatively greater impact on state power than soft power. The state’s hard power has a number of different manifestations, the most important of which are the military and police forces. These forces provide the state with the ability to compel the society in the event of disobedience and protest. Brohman (1996) has observed that the NICs in East Asia committed a multitude of human rights abuses against their populations, particularly against women. Such abuses foment dissension. This makes effective military and police forces essential for the state to maintain its exclusive hold on power and continue extracting wealth.

Huntington does a great job of succinctly identifying the key characteristics of a military force: “A modern military establishment includes a standing army recruited voluntarily or through conscription and commanded by a professional officer corps” (1968: 120). Such a definition identifies the need for not just quantity, but also quality. The military must be highly organized and loyal to be an effective state tool. A highly politicized officer corps can create issues for state control, such as what happened in Brazil’s officer corps following World War II. Such politicization hurt the central

Brazilian state's ability to push economic growth policies in every province.⁹ Nigeria provides another example of how a state without an effective military force fails to grow economically or develop politically.¹⁰

The police forces of developing countries aid the state's enforcement of policies by searching for infractions and punishing the violators. The KCIA served such a function in South Korea, as did the secret police in Taiwan (Kohli, 2004; Brohman, 1996). Both the military and police forces are crucial factors in the state's ability to ensure its continued rule through extractive institutions. As society coalesces on economic development issues, the state requires more and more power to maintain control. However, once "critical junctures"¹¹ have been crossed, society will seek to throw off the state's shackles. Such instances occurred during the Glorious Revolution and the French Revolution (identified as "critical junctures" in history by Acemoglu and Robinson, 2012).

One final consideration that greatly impacts both the hard and soft sources of the state's power concerns the political cohesiveness of the ruling faction. When the state cannot agree on particular policies, factions begin to form that negatively impact the state's ability to create coherent policies. Such an observation extends to single-party

⁹ Those provinces with a highly politicized officer corps more often refused to follow the central states policies. Since the officer corps controlled the coercive means of the state, the state was unable to force those officers into submission.

¹⁰ Nigeria's military problems stemmed from the "Neo-patrimonial," to use Kohli's (2004) terminology, characteristics of the state. More to the point, the rampant corruption among Nigeria's political elites affected the military as well. The military used as a weapon against the development of the state rather than a tool for development.

¹¹ To use Acemoglu and Robinson's (2012) terminology, though our meanings are not necessarily the same. "Critical junctures" here refer to certain conditions in the state-society balance of power relationship. They occur once the society gains sufficient power to violently threaten the state and yet the state continues to refuse compromise. The only alternative left to the society in such instances is revolution.

rule as well as multi-party rule. As Arend Lijphart observes, “it is generally wrong to view political parties as ‘unitary actors’” (1999: 72). While Lijphart’s statement refers to democracies, it can just as easily apply to single-party states. Simply consider the extensive fighting within the Chinese Communist Party throughout 2012 (Wines, 2012). When such divisions occur, particularly when they are on display, they severely weaken the state’s ability to control its own sources of power and negatively impact its standing with the society, which has its own sources of power.

The Society and Its Power

When talking about a country’s society it is important to remember that the society is composed of many different interest groups (Vitalis, 1994). In developing states, though, the society may coalesce around an issue area that directly relates to the economy. Vietnam, for example, is experiencing frequent worker strikes as workers in Vietnam fight for living wages (Bland, 2012). Such strikes present a political challenge to the ruling Communist Party. Wealth extraction, and economic development generally, has had severe social consequences even in countries that are now very stable. During their major growth periods the societies of South Korea and Singapore suffered many human rights violations at the hands the state (Kohli, 2004). Indeed, in many developing states, social development suffers in the name of “economic development,” which really serves as a euphemism for wealth extraction. While this project is mostly concerned with political and economic development, social development has important consequences for shaping the incentive structures of the society. To illustrate, imagine a society that suffers under extractive economic institutions. Repression under such institutions

provides incentives to the society to disobey, or even revolt, and thus increases the society's cohesiveness and power.

Merely desiring to disobey or revolt is not enough to affect change though; society must also have enough power to be a credible threat to the state. The society is not a credible threat until it has enough power to remove the ruling faction. This can be either through election or revolution. In such cases, the state is then faced with two options: negotiate or lose power. The ability of society to influence the state depends upon the power distribution in the state-society relationship (Migdal, 1994). It should be noted that the society need not be more powerful than the state to affect change, but only powerful enough to be the credible threat just described. Often, power is based upon society's ability to form cohesive groups that push for economic development.

There are two major economic divisions of society: labor and business, and my distinction here closely approximates Marx's proletariat and bourgeoisie.¹² Labor refers to the segment of society that works without actually owning the product of their labor. They typically work in manufacturing. Business refers to the segment of society that own the capital of production as well as the product of the labor's efforts. Labor's and business' ability to organize and cooperate have important implications for society's ability to leverage against the state. Labor groups can coalesce in opposition to extractive state policies, such as demanding better pay or better work conditions. While these are normatively desirable things, they may have a negative impact on the state's economic growth and, thus, will put the society at odds with the state (Kohli, 2004). Importantly,

¹² It would be prudent to note here that while my definition of labor and business approximates Marx's division of classes, I do not necessarily share his views concerning class conflict and the end of capitalism. On the contrary, capitalism often provides the foundation upon which inclusive economic institutions are designed.

large numbers of disaffected working class citizens or peasants can pose serious problems for the state, particularly if they are young and unemployed (Moore, 1966; Huntington, 1968; Schuman, 2012). With nothing else to do, this demographic has ample time and opportunity to organize against the state. The more organized this mass becomes the less the state can control it (Barkey and Parikh, 1991). The tactics these groups use depend upon the willingness of the state to concede to their demands, which in turn depends upon the state's vulnerability to the society. If, however, the state refuses to concede even when the society does pose a credible threat, violence will result.

Business interests can also have a profound impact on the state's policies because they have a greater ability to control the movement of wealth in a country. Business interests tend to conflict with labor interests because businesses desire, first and foremost, profit. Providing better pay or work conditions for workers tends to hurt profit, particularly in developing countries where low wages and fewer regulations help attract foreign investment. When business interests align with labor interests, however, they can together exert considerable influence. For example, business groups in India over the past few decades have managed to restrain India's economic growth (as the state sought economic growth through import-substitution industrialization) because businesses feared the negative consequences such policies might have on profit. In South Korea under the Park regime, on the other hand, the state leaders implemented development policies (export-led industrialization) that served the interests of the state as well as the business interests and, subsequently, had far greater growth, and later developmental, success (Chibber, 2003). These cases illustrate why it is important for businesses to favor inclusive institutions – they provide powerful leverage against the state.

In some cases, though, business interests prefer the extractive institutions. For example, if the state hopes to develop a certain sector in order to optimize wealth extraction, then businesses in that sector may benefit greatly from increased state investment. Such structures may also allow nascent industries to secure favorable business deals by exploiting corruption (Moran, 1999). In these instances it would make little sense for business to want to fundamentally change the state's economic institutions. Such an observation implies that states need to satisfy the dominant business interests of society to prevent business and labor from aligning against the state. Furthermore, in some cases business belongs to the state. Examples abound, simply look to China's Sinopec Petroleum or Russia's Gazprom. In such cases where business interests align closely with state interests, the burden falls to labor to drive economic development in the face of opposition from both business and the state.

It is worth taking the time here to speak to the international sources of social power. While the domestic sources of power discussed above are more explicit, international forces can also have a profound effect. A society in an undeveloped country that is cut off from the rest of the world likely does not know of the economic policies of other countries. Without understanding what alternatives exist, the society may never coalesce on a particular grievance. The most striking example of this is North Korea – a country largely cut off from international interaction. The point here, simply, is that North Korea has largely managed to stay undeveloped for a couple of reasons. The first is the major state apparatus that controls the country. The second is that the society does not have much exposure to alternative political and economic systems. I will pick up this discussion again at the end of chapter two and in chapter three.

Table 2: Key Actors

Actor	Preferred Type of Economic Institutions	Sources of Power
<i>State</i>	Extractive Economic Institutions	Military and Police Forces as a proportion of the population
<i>Society</i>	Inclusive Economic Institutions	Harder to define, but can include such things as ability to communicate and organize, as well as level of discontent

The State and Society: A Tenuous Relationship

Where the desires of the state and society clash, an asymmetry in power will result in a “winner.” The larger the asymmetry, the greater the “win.” On the other hand, symmetry of power will result in prolonged internal conflict. State power is a direct function of its ability to impose its will upon society. Given the variety of state-society power distributions within an asymmetric balance of power, one of three results will occur: the state will dominate the society, society controls the state, or there will be a compromise through which the state slowly accommodates the society’s interests (Migdal, 1994). Alternatively, a symmetry of power in which society overestimates its power will result in a stalemate that has the potential to explode in violence. Only when the society dominates the state will full economic development occur. In the case of a compromise, economic development will be limited; and in the event of state domination there will only be extractive institutions and a complete lack of economic development.

A stalemate that turns violent will likewise result in extractive institutions as the state tries to regain control. Additionally, such violence can leave a wake of destruction that impedes economic development *and* growth in the long-term. As Acemoglu and Robinson (2012) observe, wealth will accumulate under extractive institutions, and society may even see some of these benefits. Such growth, however, will not last unless inclusive *political* institutions develop, which then provide the foundation for inclusive *economic* institutions such as those that characterize the “developed” world. In their analysis, China provides a compelling, and foreboding, example. China has attracted a lot of attention around the world for its near-miraculous economic growth despite the fact that it eschews the so-called “Washington Consensus,” which dictates free market growth as the expense of state intervention (Stiglitz, 2006). China has instead continued along its growth path by utilizing a mixture of extractive and inclusive economic institutions with a large amount of state intervention. Such a “state-capitalist” model has attracted the attention of other states, such as Russia, which have also adopted a similar approach (Kupchan, 2012). Due to this development model’s growing popularity some scholars have begun to term it the “Beijing Consensus” (Arrighi, 2008). Acemoglu and Robinson (2012) warn, however, that China’s economy will eventually come to ruin if it does not transition to inclusive political and economic institutions.

Table 3: Simplified Model

Source of Economic Development (in order of event)
State Power \leftrightarrow Creates Infrastructure \rightarrow Social Power \rightarrow Economic Development

Acemoglu and Robinson (2012) have already made great progress on analyzing how states shift from extractive institutions to inclusive institutions. They have even tangentially tackled the idea of incentives in fostering economic growth, but from an institutional point of view. For Acemoglu and Robinson (2012), institutions, specifically inclusive economic institutions, foster economic growth by creating the incentives for the society to produce. The main problem with this assertion is that the society already had incentives to work towards economic growth under extractive institutions. The difference is that inclusive economic institutions provide positive incentives for economic growth, such as earning a higher wage for better work or getting to keep the rights to intellectual property, while the extractive economic institutions provide negative incentives, such as work or be punished by the state apparatus. While one is normatively more desirable than the other, incentives for the society to produce exist under both institutions.

An additional problem is the way that Acemoglu and Robinson (2012) try to explain the shift from extractive to inclusive economic institutions. While recognizing the inherent conflict between the state elite and those that are subject to them, they leave some important questions unanswered. For example, when discussing how revolutions cause inclusive economic institutions to arise, they remain silent on the issue of why. Simply because an oppressed population throws off an oppressive state does not mean that they will adopt inclusive institutions. In fact, the opposite can be true. Once society throws off the shackles of an oppressive regime, such as during the Glorious Revolution in England or the French Revolution, elites will once again emerge to fill the power vacuum in the state. These new elites will be subject to the same incentives as the

previous state elites so why should we expect their behavior to be any different? Only through empowering the society will inclusive political and, subsequently, economic institutions emerge from a revolution. Thus, I am not here disagreeing with the notion *that* inclusive political and economic institutions may arise from revolution, but that they do not *necessarily* arise.

Another key issue is their notion of the “virtuous cycle,” wherein inclusive institutions reinforce themselves, the “vicious cycle,” wherein extractive institutions reinforce themselves, and so-called “institutional drift,” wherein minor changes occur in institutions based upon the peculiarities of their home countries. Rather than explaining durability or minor changes in the economic institutions of particular countries in terms of themselves, the state-society model that I posit provides a better explanation for these observations. Where the society remains powerful in relation to the state, so-called “virtuous cycles” will occur, and where the state dominates the society, so-called “vicious cycles” will occur. “Institutional drift” occurs when the power relations between the state and society are changing, *and* there is compromise. When there is no compromise, there is a revolution, which falls outside of the notion of “institutional drift.” Such a shift in the power relationship will occur slowly and give the appearance of a “drift.” Calling it a “drift,” though, is very misleading as such shifts are typically hard fought battles, not passive occurrences. One could say that the economic institutions in China are “drifting,” but that would ignore the thousands of protests and political dissidents that fight for more inclusive political and economic institutions every day.

One important observation Acemoglu and Robinson (2012) record, however, and one that has immediate relevance to this project, is that inclusive economic institutions

often result from inclusive political institutions (i.e. democracy). This observation gives at least preliminary support to my theory. Democracies are as a rule more subject to societal forces than authoritarian states because they must be elected and are, therefore, beholden to the desires of the society that they govern (Drury, Krieckhaus, and Lusztig, 2006). Not only are democracies normatively desirable, but they also provide the necessary framework for long-term economic growth (Doucouliagos and Ulubaşoğlu, 2008; Minier, 1998; Barro, 1996) by fostering economic development. It is important to note here that this holds true only for those that truly have “free and fair” elections. There are some “democracies” that hold elections, but these are generally rigged and cannot truly be classified as elections.

A few hypotheses result from this state-society model:

H₁: When the state is more powerful than the society, as is initially the case, there will be no economic development, only wealth extraction and, occasionally, economic growth.

H₂: As power shifts from the state to the society, there will be a concurrent shift toward economic development and an expansion of inclusive economic institutions.

H₃: Conversely, as power shifts from the society to the state, there will be a concurrent shift towards wealth extraction and an expansion of extractive economic institutions to the detriment of inclusive economic institutions.

This theory and, subsequently, these hypotheses imply that the initial power distribution for all countries is a powerful state and a weak society. The political and economic institutions are extractive. Such an arrangement is necessitated by the violent nature of state development (Huntington, 1968). The state needs a lot of power in order to reorient the loyalties of the people of a given territory away from the traditional nodes of loyalty, such as the tribe, clan, or family, onto itself. As the society coalesces and begins to react

to the extractive state institutions, it gains power relative to the state. This results in economic development, however slowly. This is not to say that the process only progresses in the direction of more and more inclusive institutions. Quite the contrary, states have incentives to hang onto power and reinstate extractive institutions. Therefore, if the state begins to regain some of its power in relation to the society, extractive institutions will resurge. One of the best ways to ensure inclusive economic institutions, then, is to make the state beholden to the society, as is the case in democratically governed countries as Acemoglu and Robinson (2012) observe, though this does not necessarily have to be the case.

Moving Forward

To recap, the central concern of this project is the state-society power relationship. As discussed earlier, the state and its society each have different and opposing desires. The state wants to extract wealth while the society wants economic development, here defined as the shift towards inclusive institutions so that it can enjoy the benefits of economic growth. Thus, so long as the state enjoys enough power that society cannot leverage against it, extractive institutions will prevail. Once the society becomes a credible threat, however, the state has two options. It can either accommodate, in which case there will be a gradual shift towards inclusive economic institutions (and, likely, inclusive political institutions), or it can hold out against the societal pressure. If the state holds out long enough, the society will revolt against it and we will witness a revolution.

When it comes to the ability to exert power, the state has a large advantage. The society must generally rely upon self-organization and sheer numbers to provide the

foundation for its strength. If organized and large enough, though, the society can exert considerable influence. The state, on the other hand, likely has large military and police forces. It may also be able to harness its soft power to prevent the society from effectively organizing. Fortunately, the society doesn't need to have more power than the state for the state to acquiesce. It just needs to become powerful enough that the state elite's resistance becomes too costly for the state to maintain. States generally would rather compromise than lose complete control. If, however, the state miscalculates and does not compromise even when the society does pose a credible threat, the consequences could be severe.

In the next chapter, I will analyze China's economic developmental experiences. Doing so will help to identify salient variables for the follow-on regression analysis as well as provide a better sense of how to measure societal and state power. Proceeding in this manner has a couple of benefits. First, it will enable me to gain a better handle on just how my variables manifest themselves through history. The variables that I refer to here are state power and social power. This case study will be able to either confirm or disconfirm the relevance of the state power measure outlined above. As mentioned earlier, social power is a more difficult concept to measure and the case study will shed light on the best ways to measure it. Second, the case studies will allow me to begin to understand just what type of relationship exists between my independent and dependent variables. The relationship described above need not necessarily be a linear relationship. If it is not, then that will have important consequences for how I will proceed with the regression analysis. Third, conducting case studies will also help clarify just how to best operationalize my variables. It will answer questions such as: Should it be a dichotomous

variable or continuous? Are there any important controls that other work has missed?

Fourth, the case studies will provide expectations for the results of the regression analysis. Any substantial variation between the findings of the case studies and the regression analyses will need to be subject to additional inquiry and can even point to interesting issues for further research.

Chapter 2

China's Developmental Experiences

China possesses a long history of economic and political developmental experiences. For the purposes of this study, I am interested in the time period that extends from the beginning of the Ming Dynasty (~1368) through 1982, after Deng Xiaoping began implementing ambitious reforms. I use the term “China” cautiously here, though, because “China’s” form changed substantially throughout this time period geographically and politically. Indeed, the geographic space we now know as China did not exist until well into the 20th century after China assumed control of Tibet and Xinjiang. Politically, the form of government transitioned from dynastic rule to republican government to communist regime. The economic institutions in China have likewise varied greatly throughout this time period. These long cycles between wealth and poverty, inclusive and extractive institutions, provide an ideal setting to explore the model outlined in Chapter One.

Analyzing China has an additional advantage. There has been considerable debate about the relevance of the “Washington Consensus” in economic development, as I briefly sketched in the first chapter. One of the implicit questions that Chapters Two and Three addresses is whether or not China’s developmental path is any different than that taken by the Western world. By first drawing conclusions from China’s developmental path and then using them across a broad range of case, the regressions will help determine whether or not *China’s* experience is generalizable. In other words, by examining the model outlined in Chapter One in the context of China and *then*

generalizing, this study will be able to tangentially speak to just how different China's experience is from the rest of the world.

Choosing the time period from the beginning of the Ming Dynasty until 1982 has a number of advantages. First, choosing this time period allows me to trace both the increase and decrease in the level of inclusiveness of China's economic, and political, institutions. In this way I can demonstrate how well the model holds in both directions. Second, following China's developmental experiences up to 1982 allows me to investigate the reasons behind China's shift towards market reforms that subsequently launched its impressive economic growth. Third, taking such a macro view of history enables me to speak to the sustainability of China's current economic growth. Fourth, reviewing roughly 600 years of Chinese history will speak to the endurance of the model. If the model explains China's development over the past centuries it will likely explain such development into the foreseeable future. Fifth, and finally, should the model hold for this case study (and be further confirmed, or disconfirmed, across cases in the regression model in the next chapter) it will speak to the relevance of mainstream economic thought in explaining China's economic development and growth, as briefly overviewed at the start of this study.

It would be prudent, however, to take the time now to outline a couple of warnings. China's history, while relatively well documented, still poses a number of problems. Some parts of China's history rely upon first hand accounts that introduce issues of objectivity, while other parts are totally lacking the information that I require to evaluate the exact strength of civil society or the development of the economic institutions. In the first place I rely upon historians who specialize in the time period in

question. They are well aware of the problems of historical objectivity and I defer to them when I am unsure of my own interpretations. In the second place, I must be humble in my conclusions. The lack of information stems from two separate issues. The first is that no such information exists, or is yet to be discovered. The second is that there is simply not enough room in this study to include the information. In order to get through 600 years of Chinese history, I must focus on the larger trends, which necessarily requires a loss of detail. As such, definitive causal relationships will be all the more difficult to uncover. As such, this chapter should be viewed more as an illustration of my model than definitive evidence of its explanatory power. This chapter will serve to demonstrate how the model functions and, more importantly, help to identify the best ways to measure the strength of the society as well as the degree of economic development. This will aid in constructing relevant regression models in the next chapter.

In the subsequent sections of this chapter, I begin by investigating the state-society relationship during the Ming and Qing Dynasties with an eye to that relationship's impact on the economic institutions of those time periods. This will become more difficult in the late Qing period as I must sort out the impact of the colonial powers from the impact of the state-society relationship. I then investigate the impact of World War II, the Chinese Civil War, and the subsequent Communist rule. All of these events have had important and lasting influences on China's institutions and will serve as the foundation for my discussion of Deng Xiaoping's reforms. At the close of this chapter, I will evaluate the findings to prepare for the next chapter's regression analysis.

Ming Government and Society

The Ming Dynasty lasted from 1368 until the Qing Dynasty began in 1644. The Ming Dynasty had a very effective system of governance that consisted of an emperor, princes, nobility, and an extensive civil service. The civil service is of special significance, as one scholar of Chinese history puts it: “The civil service dominated state and society to such an extent that no student of Ming history can afford to be unaware of its workings as a largely self-defining and self-regulating body” (Hucker, 1998: 29). During the Ming rule, the size of the civil service quadrupled from around 5,000 to more than 20,000. Civil servants were typically well educated, some spending up to ten years in higher education before taking the civil service examination. Over time, however, education became merely a means for acceding to the civil service rather than for higher learning in and of itself (Peterson, 1998). Life as a civil servant, however, brought its own unique rewards.

Civil servants were exempt from paying taxes and did not have to work as common laborers on state projects. Unfortunately, this did not always guarantee an easy life, as it was not uncommon for the emperor to have civil servants flogged before the imperial court. What resulted from this was a well-organized, large, robust, effective, and usually obedient civil service that helped the government maintain control. Some scholars have claimed that the civil service was unique in that it was open to anyone who had the education to sit for the exam. While this is true, it means that only the wealthier segments of society who could afford the education entered the civil service. In this way, the civil service was not a way for society to leverage against the state so much as a status symbol for its members.

One could compare this experience to other countries' development paths. For example, South Korea in recent times maintained a large bureaucracy for implementing the government's policies. This is one of the reasons South Korea's economy grew so quickly starting in the 1960's all the way into the 1990's. True development, however, could not occur under these circumstances. Only once the repressive state apparatus diminished starting in the 1990's did more inclusive economic institutions develop. India serves as a cautionary tale should we be tempted to place too much emphasis upon the civil service. India had a relatively effective bureaucracy, but has been unable to fulfill its potential for economic growth and development (Kohli, 2004) as discussed in chapter one. In the Ming Dynasty, though, it not only had a large civil service. It also had a large military apparatus.

While Ming China's civil service was a large component of the government, the military was far larger – in excess of one million troops. The common soldiers were directed by a professional officer corps that was, for all intents and purposes, subject to the civil service (Hucker, 1998). In modern terms this meant that there was civilian oversight of the military. It was also a very effective fighting force. That the military was able to hold out against Jurchen invaders as well as domestic rebellions for as long as it did at the end of the Ming Dynasty (almost 30 years) despite its financial woes and political mismanagement is testament to its effectiveness, largely due to its organization and training.

Though the central Ming government had an extensive and obedient civil service and military, the towns were generally allowed to govern themselves. Much of this stemmed from the Ming court's inability to project equally large amounts of power

across its entire territory. This does not mean, however, that the towns could do whatever they wanted. Indeed, the population was sometimes made to obey through “brutal and arbitrary punishments on the one hand and moral exhortations on the other” (Huang, 1998: 106). After the first few decades of Ming rule, however, stricter taxation was implemented in order to pay for increased, and at times out-of-control, government spending. It was this spending and the subsequent increases in taxation at the beginning of the 14th century that caused popular uprisings in China. In response the Ming government made concessions to assuage the popular anger (Huang, 1998). The biggest concession was that the tax burden placed upon commoners was reduced and government spending was reigned in, though palace expenditures continued to increase. What is important to notice here is that the government acceded to the demands of the protesters. While it cannot be confirmed beyond a doubt that the concessions granted to the protesters stemmed solely from the government’s fear of losing power, the timing suggests that this was so.

Even though the Ming court had to reduce its taxes, it had other means of collecting revenue. Throughout much of China’s imperial history, the central government maintained a salt monopoly, which was a vital resource for such things as food preservation. This monopoly was not a single company, but existed as more of a cartel-like arrangement whereby multiple “companies” sold salt on a non-competitive basis. This arrangement was aided by the central government, which made it a felony for salt from one company to be sold within the territory of another. Additionally, the Ming government had at least two dozen other forms of tax revenue, including customs, business tax, fishing duties, licensing Buddhist monks and Daoist priests, and mining

operations. Unfortunately, even all of these sources could not generate the required revenue and the Ming government eventually failed due to an inability to generate enough revenue to continue its existence.¹

As the 16th century progressed, the Ming Empire was increasingly unable to pay its civil servants and military forces. This, in part, stemmed from the Ming government's inability to create a viable paper currency (Huang, 1998). These underpaid government servants subsequently turned to less honest means of income. Examples of this practice include influencing court decisions, supervising waterworks projects to garner bribes, and giving and receiving non-monetary gifts in return for favorable treatment. The extent of the corruption is evidenced in the way it was an accepted, and even highly organized, practice within the bureaucracy. Curiously, it does not appear that these activities elicited any major retribution from the society, at least initially.

In the broadest sense it appears as though Chinese society writ large during the Ming Dynasty had little ability to change the status quo, though there was undoubtedly bitterness at their meager position in life. Ming policy was particularly harsh towards the peasantry, even considering the reduction in the tax burden. For example, about three million people were resettled in areas that had been destroyed in the warfare that ended the previous dynasty in order to repopulate an essentially ravished countryside. That the peasantry's condition had significantly worsened is also evidenced in the rapid decline in life expectancy that began around 1500. This decline lasted well into the following Qing

¹ Certainly, there were other causes of this decline, not the least of which were the invaders from the Northeast. The point here is simply that China could not sustain its defenses due to fiscal mismanagement. Compounding these financial woes, foreign sources of silver began to restrict their trade with China in the years leading up to Ming China's demise (Atwell, 1998).

Dynasty. In the poorer provinces, the average life expectancy was cut from around 65 years in 1500 to only 46 in 1800 (Heijdra, 1998). Furthermore, commoners were largely subjected to predatory relationships with landlords in which there was little hope for escape. Such progress generally required extensive education – something that the peasantry could not afford. This social reality was reinforced by the rise of a gentry class that generally filled the jobs requiring an education, which removed any incentive for the peasantry to become educated. Moreover, this gentry class generally abused their position of rank for profit.

Not only did life seem to be getting progressively worse for the peasantry, they also appear to have been able to organize to a level not seen previously (Heijdra, 1998). This was due largely to the expansion of roads and waterways that enabled commerce and communication over long distances (Brook, 1998). Perhaps the most ambitious construction project of imperial China was the Grand Canal that connected various waterways in China and enabled travel between Beijing and Suzhou, which is located just west of Shanghai. In addition to this project, the Ming government oversaw the construction of a number of bridges to enable road travel over rivers. These networks provided the pathways along which people could send mail and goods. Even though extensive travel had become a possibility, only those who could afford the expense could travel. Thus, peasants could occasionally communicate over great distances, but generally could not travel. Indeed, when peasants did travel, it was to travel west where there was more land and, it was hoped, more opportunity. Such a move took peasants away from political centers where they would have been far more of a threat to the state.

Around the same time travel was becoming easier, books began to be published *en masse*. These books and leaflets could then be circulated among a large audience. Leaflets were often posted in public venues. Even those who were illiterate often received the message through those who could read. Many people took advantage of this new printing technology, such as the gentry and the government, to circulate new ideas and propaganda (Brook, 1998). By far the largest printers, however, were those that did so commercially as a new market for books developed. Typically, though, these commercial printers printed copies of books that the palace already had. Thus, even with the advent of inexpensive printing, the technology was largely unavailable to the peasantry.

In the final analysis, the Ming government was generally strong, though it had a limited reach. This is not to say that the Ming government did not have considerable influence upon its society, only that it only had such influence over a small segment of what was geographically considered China. Overall, Ming society was weak and largely disorganized, though it did make some progress towards organizing itself. Some of this organization began largely due to the improvements in communication and travel that enabled a more networked society. Unfortunately, this organization never reached the level necessary to threaten the state and cause reform. Had society during the Ming Dynasty been strong, this would have resulted in a significant change of institutions, if not a violent revolution. The elites were satisfied with the status quo and the society was too busy working out a subsistence living, too disconnected and too far away to mount any sort of resistance to the government, even though revolts did take place. As a result,

there was no incentive for the Ming government to change its institutions and it withered until the invading Jurchen administered the deathblow in the first half of the 17th century.

Placing Ming China in a comparative perspective is a little problematic. Most of the development literature concerns the experiences of a multitude of countries, but only over the past 100, maybe 200 years. The case just examined investigates China's developmental experiences between 400 and 600 years ago. With that in mind, though, some important points can be gleaned. The first is that a strong state lays the foundation for a strong society. As we have seen, China's state began to develop its infrastructure in order to increase its reach and efficiency. This also increased the society's ability to communicate, travel, and study. The Asia Tigers had a similar experience in the 20th century. A strong central government pushed for reforms and advanced infrastructure, mostly to the detriment of the population. All of these countries today are models of capitalist achievement, boasting robust and generally inclusive economies. None of that would have been possible without first laying the infrastructural foundation to strengthen society. Development in this formulation is an inherently messy, and often violent, process. Starting with state repression that is later thrown off by an empowered society. In evaluating such an assertion, the discussion of Qing Dynasty and the following Republican periods of China's history will prove especially instructive. Towards the end of the Qing Dynasty we will see China's society come into its own, though with only limited success.

The Qing Dynasty and Foreign Encroachment

China under the Qing Dynasty continued many of the trends that were already underway during the Ming Dynasty. During the Qing, particularly in the late 1800's and

early 1900's, Chinese society came into its own as I mentioned earlier. This growth in the society's strength is closely linked to the massive population boom during the 1700's. In 1700 the population totaled roughly 150 million, but by 1794 that number had swelled to roughly 313 million. With this massive growth, the distinction between social classes began to erode. Peasants gained some social mobility and, subsequently, had more political relevance (Rowe, 2002). Elite groups lost their monopoly on the press and there was an explosion of literature. In short, the peasantry became a force in politics.

With these trends, new frictions began to emerge in society as the lower classes began demanding greater access to the privileges that historically had been reserved for the social elites (Rowe, 2002). These new interests included economic considerations as agriculture became increasingly commercialized. New economic freedoms enabled many to begin occupying jobs outside of agriculture in fields like soldiering, cooking, and art. Often, a transition to these industries required a move to an urban center. In other words, the changing lifestyles and occupations of the peasantry caused a new economic awareness and a geographic shift towards seats of political power in the cities.

Indeed, this time saw an explosion in China's urban population, particularly among the lower classes (Rowe, 2002). Residing in these urban centers brought the lower classes into closer contact with the Qing government. Moreover, greater commercialization and rising wages allowed the peasantry to become increasingly involved in political life. This is evident in the increasing frequency of protest and revolt. As we move closer to 1800, as one scholar puts it: "collective action for protest or resistance purposes was a fact of life," (Rowe, 2002: 556). Of particularly high

frequency were food riots where rioters forced the government to sell food from its granaries.

Urbanization is particularly important in larger countries. The Asian Tigers did not have to experience such urbanization before the society became a force. Taiwan and South Korea were small enough that a move to an urban center was relatively easy. This is especially true for Hong Kong and Singapore where their populations were by definition urban. Other countries have experiences similar problems with distance. Brazil, for example, is a very large country that is having problems with economic development, though of a slightly different nature. Distance in Brazil's case produced a severe handicap on the ability of the state to implement its policies as military commanders from different regions at times decided to disregard the state's instructions (Kohli, 2004). In this way the state and society both have an interest in overcoming the problem of distance. The state has the means to building the infrastructure to allow movement that the population then takes advantage of to urbanize.

Coupled with the increasing urban populations and growing industries, fraternal organizations emerged (Rowe, 2002; Myers and Wang, 2002). These groups organized industries and acted much like labor unions. These organizations then pressed their agenda with the state. Indeed, even a cursory glance at South Korea during its rapid growth shows a state that violently repressed unions because they posed a significant challenge to the state's authority (Kohli, 2004). In sum, we see a much more conscious society; a society that was not afraid to press for concessions from the government. It was much larger and more organized than ever before. Much of this stemmed from the increasing availability of the press as well as the higher concentration of peasants in

commercial centers. With this social trend, we see China's economy becoming more inclusive as well as increasing trade and expanding markets. In short, capitalism was beginning to flourish in China.

China's market economy began to grow to such a size that even the Qing government shifted from heavily regulating the economy to loosening its controls and encouraging people to amass wealth in order to gain political allies (Myers and Wang, 2002). To do so, the government implemented a generous tax scheme and an effective silver currency to make business transactions more convenient. These reforms worked very well and the society responded to the government's incentives by organizing itself to optimize economic output (Myers and Wang, 2002). Further evidence of the positive impact of these reforms lies in the fact that there were no significant domestic rebellions to which the Qing government had to respond prior to the 19th century.

Before we get too carried away with the changes occurring to China's society, though, it is important to remember that by 1800 fully 80 percent of China's population still resided in the countryside and saw little of the Qing government (Fairbank, 1978a). Nevertheless, the increasing population meant that much of China, even in the rural areas, had become "saturated" with people to the extent that food supply had become a problem and competition for jobs was fierce (Jones and Kuhn, 1978). In response to these grievances, secret societies began to form and develop political agendas. Much of this came from anti-government sentiment as China opened to foreign powers, the Qing government became more corrupt, the monetary system came unhinged, and China was humiliated by its defeat in the First Opium War. As a result of these failures, discontent

spread throughout the wealthier areas around the Pearl River Delta. This posed a serious challenge to the state just as urbanization had.

Around this time opium addiction had become a major domestic and foreign policy issue. Initially introduced for medical purposes during the Tang Dynasty (~600-~900AD), opium use had grown to epidemic proportions by the early 1800's. By 1836 China was importing about 1,820 tons of opium each year (Wakeman, 1978). In an attempt to eradicate the substance from its society, China waged a war with the United Kingdom (who exported the substance to China) in order to stop opium shipments. China lost and was subsequently humiliated and subjected to embarrassing concessions under the treaty with the United Kingdom. Additionally, the war did nothing to stop the flow of opium. Estimates indicate that, by 1890, China had more than 15 million opium addicts.

The treaty system established at the end of the Opium War in 1842 ushered in an era of political chaos in which the Dynastic rule eroded and warring factions emerged. Eventually, this failure contributed to the Revolution of 1911 that ended the Qing Dynasty (Fairbank, 1978b). The treaty granted the United Kingdom massive freedoms within China and pried open China's ports to European imports. Within this social and political reality, the Taiping Rebellion emerged in 1850 and sparked a civil war that killed more than 20 million people and lasted for more than a decade (Kuhn, 1978). The Qing government would survive and regain much of the strength that it had lost during the rebellion, though not until the 1870's – and only with the aid of European weapons and tactics (Liu, 1978; Liu and Smith, 1980; Kuo, 1978; Hao and Wang, 1980). This

increased Western presence and the opening of China to Western influence would later touch-off the Boxer Rebellion, which was a short-lived pro-Qing, anti-foreign movement.

It is important to note that as the 19th century came to a close, China's economy was undergoing a radical transformation. Prior to the 20th century agriculture *was* China's economy. There was little else. By 1895, however, the number of Chinese-owned manufactures was on the rise. One scholar notes that "The economy of late-[Qing] China was, at its given level of technology, characterized by a high degree of commercial development," (Feuerwerker, 1980: 40). China's market had become increasingly connected and trade moved rapidly along the countryside towards urban centers. It is no accident that such changes to China's economy occurred alongside advances in communication and transportation technologies. For the purposes of this study the most important consequence of this economic growth is the increasingly market-conscious society, especially among the new merchant class (Chan, 1980).

Even as the peasantry began to gain an economic awareness, the Qing military declined. Much of this stemmed from the regime's financial woes. The Qing navy was severely underfunded and could barely sustain the fleet it currently possessed, much less modernize and expand. The army likewise began to suffer severe financial trouble as the 19th century came to a close (Liu and Smith, 1980). This was particularly problematic during the Sino-Japanese War (1894-1895), when China suffered an especially horrific defeat. Thus, the Qing military not only declined during this period, but it was also engaged in other conflicts that tied up what resources it did have.

In addition to these economic and military trends, the political atmosphere of the Chinese society had begun to change significantly. Western political thought, most

importantly the idea of democracy, began to penetrate deeply into China's intellectual classes. Aided by the development of more advanced printing technology, this new strand of political thought found its way onto numerous political leaflets. The ultimate goal of these intellectual reforms was to institute a democratic constitutional government. As time went on, however, the nascent reform movement grew ever more radical in its outlook, leading some rebels to establish their own government in Hunan province in 1897. This movement later suffered because its radical ideology caused significant backlash and it floundered within a year (Chang, 1980). Regardless of its outcome, the most important thing to note is that the short-lived government in Hunan constituted a major challenge to the Qing government's sovereignty. It was no accident that such a challenge coincided with a sharp decline in Qing state power, specifically in its military and legitimacy.

The end of the Hunan government was not, however, to be the end of the reformist movement in China. In the same year the reform movement in Hunan waned, it appeared in Beijing. The Qing government suffered from some significant political infighting between those who wanted reform and those that did not. This struggle culminated in the "Hundred Days" of 1898 when the government sought to implement more than one hundred military, cultural, educational, and economic reforms. The reforms sought to help the government regain political control of an increasingly rebellious society. Nearly all were implemented, but the increasing radicalization of the movement once again invited retaliation from the more conservative minded members of government (Chang, 1980). The end to the reform movement came when the empress dowager staged a successful coup d'état. Essentially, the empress stalled the reform

movement at a time when the government was weak and the society strong – a political miscalculations that would have terrible consequences for the government.

Such developments point to another phenomenon occurring in China's society – social globalization. As I discussed above, Europeans established a strong beachhead in China after the Opium War. This not only humiliated the Qing state, but it also caused China's society to come up against new ideas about economics and politics. As we shall see this sort of international interaction only increased as time continued and played an integral role in the 1911 Revolution. In this sense, social globalization can also be a measure of society's strength. It is difficult to place such a phenomenon in a comparative perspective without going into a lot of detail, but I believe it safe to speculate that the Asian Tiger's developmental experiences will confirm that social globalization, and globalization generally, play an important role in economic development. South Korea, Taiwan, Hong Kong, and Singapore are all now models of international interaction. I will take up this claim again in chapter three and for now will only explore it in the context of China's developmental experiences.

Revolution and Republican China

Chinese society, embarrassed by repeated defeats at the hands of foreign powers and enlivened by a new political and economic awareness, became increasingly nationalistic towards the end of the 19th and beginning of the 20th centuries. The first real challenge to the Qing regime occurred in 1900 when Sun Yat-Sen staged an abortive revolution (Jansen, 1980). This growing discontent also set off a wave of reforms as the Qing government desperately sought to maintain control over its crumbling regime. These reforms included establishing central control over the military, financial and

market reforms, and overtures towards constitutionalism (Ichiko, 1980). This movement towards inclusive political institutions, unfortunately, proceeded at a slow pace and was ultimately unable to stave off the October 1911 revolution. All-too-aware of its weak position, the Qing government frantically sought to appease the revolutionaries by implementing the nineteen articles of the constitution.

The revolutionary movement led by Sun Yat-Sen relied primarily upon the lower class, a lesson that would not be lost on Mao Zedong during the Chinese Civil War. This discontent was infectious and soon spread to the upper classes. In particular, students seized upon the revolutionary fervor and the Chinese students studying in Japan became a locus of discontent. Between 1905 and 1908, the student movement and Sun Yat-Sen's revolutionary movement joined forces to present a more formidable enemy to the Qing court. The movement grew further as it developed contacts with secret societies in the countryside, whose ranks had swelled by this period, and by 1906 uprisings were springing up across China (Bastid-Bruguiere, 1980). Soon the revolutionaries' discontent spread to the military and by 1910 the Qing court's control over the military had been severely crippled (Gasster, 1980). This all culminated in 1911 with the birth of the Republic of China.

The new republican government, however, would not be the end of China's political woes. In the words of a prominent Chinese historian, the years from 1912-1949 "were marked by civil war, revolution and invasion at the military-political level, and by change and growth in the economic, social, intellectual and cultural spheres," (Fairbank, 1983: 1) – it was, in a word, chaotic. New leaders emerged who, unfortunately, epitomized the transition from the incentive structures of the society to those of the state.

Those who once championed inclusive institutions quickly changed to promoting extractive institutions and stagnated economic development. Early in the Republican government, a strong leader – Yuan Shi-Kai – emerged who concentrated power in the state. Such an authoritarian leader soon elicited a violent response from the society.

China's economic performance from 1912 to 1949 was dismal. In areas where the economy did not contract, it stagnated. Industry was hit particularly hard by war between 1937 and 1945. The banking industry never fully materialized in any useful way. Most of China's railways were either seized or destroyed after 1912 and "...the Chinese economy as a whole underwent no significant transformations; at best there occurred only a 'partial development,'" (Feuerwerker, 1983: 126). This lack of development was initially due to the strong authoritarian government.

Indeed, most scholars of this time period stress the continuity of the political authority of the central government, though now in a Republican form (Young, 1983). While the revolution by definition disrupted the central government's hold on power in 1911, by the end of 1912 Yuan Shi-Kai had risen as the clear ruler. Initially he instituted a number of reforms designed to improve the efficiency of the government and economy. As time continued, however, Yuan's rule developed into a *de facto* dictatorship. He lost tolerance for the restraints imposed by the provincial governments and, as a consequence, took away their power. His methods knew no bounds as he resorted to cheating, political maneuvering, and murder, to gain the power he desired. In a sense, Yuan had to use these methods because his rule lacked legitimacy (Rankin et al, 1986). As Ernest Young states: "Yuan [Shi-Kai] is remembered among Chinese for his treachery towards the reformers in 1898, towards the [Qing] court in the 1911 Revolution, and towards the

republic after becoming president” (1983: 237). By 1914, Yuan had removed all elected assemblies and militarily occupied trouble provinces.

When Yuan Shi-Kai died in June 1916, warlordism swept across China. The central government tried, and failed, to implement a constitution – mostly due to factionalism (Nathan, 1983). Warlords rose to fill the power vacuum left by an ineffective government. The instability is nowhere clearer than in the hundreds of armed conflicts that occurred in China between 1916 and 1928. Furthermore, the warlords imposed an incredibly onerous tax burden upon the territory they controlled. This burden contributed to massive famines and widespread death. In a sense, though, this warlordism would contribute to the social movements (most notably the Communists) that would later unify China (Sheridan, 1983). Most importantly for this study, societal power was crippled right along with state power. Warlords were not subject to the whims of society in the same way the state was and, as a consequence, were under little compulsion to reform the economy.

Under these onerous conditions, new ideologies began to take hold in Chinese society. In the late 1910’s and early 1920’s, Marxism spread like wildfire among the intellectuals in China who had come into increasing contact with Western ideas in China’s urban centers (Schwartz, 1983). The message of class conflict was eagerly consumed by the lower classes that had to live under the draconian measures imposed by a despotic government (Furth, 1983; Ch’en, 1983). Eventually, in 1921, the Communist Party (CCP) met for the first time. Beginning with only 130 members, the CCP grew rapidly, reaching 60,000 by 1927. During this time, the CCP succeeded in organizing and radicalizing the peasantry (Wilbur, 1983). This rapid growth quickly drew the ire of

the Nationalist (GMD) government and so, in order to avoid further persecution, the CCP began to organize an army and a government in 1927 (Ch'en, 1983). The ability of the CCP to defend itself became paramount after the GMD defeated the warlords in 1928 and then concentrated its attention on defeating the CCP.

In the early 1930's three major events occurred: the economic depression arrived in 1931, the Japanese invaded Manchuria in 1931 as a precursor to all-out war in 1937, and the CCP established a full-fledged government in Jiangxi, which is located in South-Central China. While this was taking place, the GMD was establishing a government in Nanjing under Chiang Kai-Shek. Once established, the GMD began to tighten its control over its critics through assassinations and arrests (Eastman, 1986a). In 1934, the GMD initiated a long and brutal campaign against the CCP that covered more than 6,000 miles on foot in less than 400 days – nearly wiping out the CCP. This event, known as “The Long March” would have a profound impact upon Chinese politics. During The Long March, Mao Zedong rose as the leader of the Communist Party and would later become China's dictator (Ch'en, 1986).

Also during this time, the peasantry continued to develop the rural market economy. By the 1930's, in some instances, as much as half of what the peasants grew was sold for profit (Myers, 1986). They also developed a class consciousness due to the Communist efforts in the area. They juxtaposed themselves against the wealthier classes, which would become an important component of Mao's rule after 1949. This sense of class solidarity was further strengthened during the Sino-Japanese War, which lasted from 1937 to 1945. When the Japanese invaded, the peasants had to bear the brunt of the onslaught of the invasion (Eastman, 1986b). By 1945, China was left with a large,

discontent, and highly organized peasantry. The CCP offered the peasants a way to vent their frustrations and after the end of the Sino-Japanese War they launched the Chinese Civil War that pitted the GMD against the CCP for the ultimate control of China.

Indeed, without the Communist Party, it would have been unlikely that the peasants would have thought to revolt. Additionally, without the peasantry, the Communist Party would not have been powerful enough to defeat the GMD (Bianco, 1986). The literature produced during the 1920's, 30's, and 40's helped to spread the revolutionary fervor among the peasantry (Lee, 1986). This discontent was further stirred as many urban Chinese fled the Japanese invasion by settling in the rural west. These urbanites often abused the rural Chinese, which in turn solidified the peasantry's distaste for the upper classes. By 1944 the unrest in the countryside was palpable and ready to explode at the first opportunity. Unfortunately for the GMD, this increasing unrest coincided with the deterioration of the Nationalist army (Eastman, 1986b). Estimates indicate that the CCP had grown from only 40,000 in 1937 to 1.2 million in 1945 (Slyke, 1986). The stage was set for power to once again change hands.

The Chinese Civil War began when Chiang Kai-Shek's Nationalist forces launched a daring extermination campaign against the CCP in August 1945. At the start of the Civil War, the GMD far outstripped the Communist forces in both quality and quantity. Soon, though, the Nationalist government began to lose its support base as rampant inflation caused the urban Chinese to lose confidence in the GMD's ability to govern. In response, the GMD initiated an aggressive economic reform campaign in order to stabilize the economy in 1947 and 1948. These measures failed, however, to stem the tide of popular discontent. During this time, the CCP began to counter-attack

utilizing effective guerilla tactics that soon had the GMD forces on the defensive. By 1949, Chiang Kai-Shek's main forces had been destroyed and the Communist forces simply conducted mopping-up operations until the GMD sued for peace (Pepper, 1986). Thus, by 1949, the Communists under Mao were firmly in control of China and began to implement their own style of authoritarian government. These developments augur the return of a powerful, centralized state.

One of the most important lessons of this portion of Chinese history is that an efficacious state is an important factor in successful economic development. After the 1911 Revolution, economic development stagnated. This trend continued through the warlord period and the Chinese Civil War. Development would not resume again until well into the Communist rule. Without a state, no effective policies could be created, much less implemented. Likewise, China under Yuan Shi-Kai and Mao Zedong, as we shall see, had a society that was too weak or a state too strong, which prevented beneficial developmental policies from being created. Thus, a balance must be struck between a strong state and a strong society. Each are important in varying degrees to economic development.

Communist China to Deng

One of the defining characteristics of Mao's Communist China is the degree to which the state apparatus penetrated Chinese society. When the CCP assumed control of China it set about reunification on a scale not seen for centuries (Fairbank, 1987). To accomplish this the CCP adopted the Soviet model of government centered on a strong central government. Indeed, Mao often deferred to the Soviet Union on questions of ideology – at least until 1957. The CCP initially limited its obligations, trying not to

overextend itself, as it sought to rebuild its membership. Such pragmatism was welcomed by much of the society, which had become severely disillusioned with the Nationalists and its failed policies (Lardy, 1987a). In the first couple of years, the CCP began land reform wherein land was taken from the landlords and distributed among the peasantry. Such practices won the peasantry by helping, at least initially, to improve the peasantry's quality of life (Teiwes, 1987).

In order to foster economic growth, Mao Zedong implemented the first Five-Year Plan in 1953. This first plan marked a radical break with traditional society. The plan entailed collectivizing peasants across the country in order to increase productivity, something at which it was particularly successful. Collectivization increased dramatically in the second Five-Year Plan, which ran from 1958 through 1962. This second plan ushered in what is known as the "Great Leap Forward." It was a very ambitious plan to push towards what was marketed as a socialist utopia. It also served the political necessity of silencing political opponents and kept the society in line with the Communism ideal. By 1960, the Great Leap Forward had proved to be a disaster and was the main reason a famine swept the countryside in 1959 and 1960 that caused at least 20 million deaths (Lieberthal, 1987). This failure undermined Mao's popularity within the CCP.

Such disasters created a lot of discontent among the peasantry, but Mao masterfully manipulated the population into obedience. In 1956, Mao began the "Hundred Flowers Campaign" during which he allowed open criticism of the Communist Party. What he had not counted on, though, was the degree to which the population would use the opportunity to criticize the government. In order to regain control, Mao

subsequently instituted the “Anti-Rightist Campaign” in order to purge those deemed unfriendly to the state by appealing to the supposed ideological purity of Communism (Teiwes, 1987). This demonstrates the way in which the CCP alleviated pressures for reform from the society without actually giving up any power. Particularly important was the way in which the CCP handled higher education.

The Communist party kept a strong hand on education and the intellectual class. It vigorously promoted education and literacy, but this education had a significant Maoist bent to it (Pepper, 1987a). For example, “productive labor” became part of the curriculum and class background screening became required for those seeking admission to higher education (Pepper, 1987b). Intellectuals were subject to what appear to have been schizophrenic policies. They were first indoctrinated into Marxism and Leninism, and then encouraged to be true to their profession – that is to publish freely. This tension tended to have extreme consequences. For instance, intellectuals were the most outspoken group during the “Hundred Flowers Campaign,” but then were subject to the cruel oppression of the “Anti-Rightist Campaign” soon after – largely at the hands of the society (Goldman, 1987a). This suppression effectively cowed the Chinese intellectual community into towing the party line (Goldman, 1987b). The academy was a crucial institution that the government kept a tight grip on. As we have seen previously, the academy has an unusually strong ability to foment dissent. This makes it important for the government, especially an unpopular one, to control it.

This became especially vital after the failures of the Great Leap Forward (GLF) and the extreme economic decline that occurred because of it. Rather than increasing agricultural growth, the extreme collectivization policies of the GLF slowed it. This

contributed to the massive famine of the late 1950's, as previously noted. Even after the end of the famine, there was an extreme downward pressure on the living standards of the rural population. This includes a peasantry sinking ever deeper into poverty and an increasing mortality rate in the rural areas. As a result, much of the peasantry began to decollectivize in defiance of the CCP's policies (Lardy, 1987b). Unfortunately, this would not be the end of the society's woes, as Mao would once again try to reassert his power in an even more forceful manner.

All of these events came to a head in the 1966 Cultural Revolution. Having sensed his politically vulnerable position, Mao mobilized the peasantry under the banner of Maoism to maintain his control (Schram, 1991; Harding, 1991). He accomplished this by calling for the masses to purge China's society of all "impure" elements, known as the "four olds." The four olds included "old ideas, old culture, old customs, and old habits" (Pepper, 1991: 547). Unfortunately, Mao could not control these social forces once released, and the ensuing chaos resulted in a full-scale assault on the very fabric of Chinese society. Purges and deaths occurred on a massive scale as factionalism, fueled by violent ideology, swept the country. Most of the violence was contained in the urban centers, but as time went on the Cultural Revolution began to spread to the countryside. Fortunately the rural areas were not hit as hard, but there was still significant damage to rural life as traditional religion was attacked and ancient artifacts destroyed (Madsen, 1991).

Mao officially declared the end of the Cultural Revolution in 1969, but in practice the violence and purges continued until 1977. The Cultural Revolution was designed to maintain Mao's handle on the CCP, but by the early 1970's new leaders began to emerge.

This study will not concern itself with the details of the leadership transition, but it is enough here to say that Deng Xiaoping emerged as the *de facto* leader of the CCP by 1978 (MacFarquhar, 1991). Once coming to power, Deng began implementing massive reforms to end Maoism and collectivization. These are the reforms that laid the foundation for the massive economic growth, and even development, that we are seeing in China today. This was largely due to the massive societal forces that had been released during the Cultural Revolution and by the CCP before that. One historian makes the point eloquently and is worth quoting at length here:

By the CCP's Twelfth Congress, in 1982, the erosion of the Party's authority as a result of the Cultural Revolution, the subsequent moves to restrain the arbitrary use of power, the decline in the force of ideology, the unleashing of the peasant and the attempt to free up the urban economy – all carried the potential for a role for the society vis-à-vis the state possibly greater than at any previous time when China was united under a strong central government... Those burgeoning social forces would finally challenge the bonds of state authority in the [Tiananmen] demonstrations of 1989 (MacFarquhar, 1991: 401).

Deng's reforms included major shifts in Chinese economic thought. By 1979, China had begun allowing greater economic freedom throughout China. Bonuses for superior performance were introduced. Special economic zones, which provided incentives designed to attract FDI, were established along the coast. By the mid-1980's China had made significant progress in market reforms that have served it so well since (Perkins, 1991; Whyte, 1991). Indeed, this is the foundation upon which China's current economic growth is based.

Conclusion

China's turbulent history presents an amazing variety of societal strength, state strength, and economic development from which I can draw conclusions. Broadly speaking, China's history during the Ming Dynasty consisted of a weak society and a

weak state. Over time, the strength of both China's society and China's state increased. China's society, however, began to gain an upper hand through the population explosion, urbanization, and subsequent organization. The society also became increasingly involved in economic pursuits, which gave it coherence in its political objectives. A turning point occurred after the Opium Wars that destroyed much of the state's power and infuriated the society. Generally speaking, as the power balance tipped in favor of the society, the state sought to respond to its loss of power by appeasing the society. Ultimately, appeasement failed and the last Dynasty was overthrown in 1911.

What followed was an era of chaos. First, China's society suffered under a dictatorship. Then it suffered under warlords, before once again suffering during the Sino-Japanese War and the Chinese Civil War. All of these factors pushed the society, and especially the peasantry, to organize on a scale never before seen. This organization largely benefitted the CCP, which then used this force to gain control of China in 1949. Upon coming to power, the CCP implemented a strong central government to effectively control the society through ideological manipulation and physical intimidation. Once Deng Xiaoping came to power in 1978, and in response to the degree to which the CCP was falling from power, he implemented massive reforms that brought a large degree of economic development and helped to restore the CCP's grip on power. For example, economic planning in the 1980's became less centralized, allowing for greater economic freedom between provinces and even counties.

These events amply demonstrate the applicability of the model outlined in chapter one. First, the importance of a viable state is shown through China's experiences of Revolution, Warlordism, and civil war in the early 20th century. Second, a strong society

correlates well with advances in economic development. Third, the differing incentive matrices of the state and the society is beautifully demonstrated by Yuan Shi-Kai's transition from a revolutionary who favored inclusiveness to a dictator that sought to solidify his hold on power through extreme repression. This chapter will illuminate the regression analysis of just what measures of social and state power are the most important indicators of economic development.

China's experience suggests a number of potential measures of societal power that will be explored further in the next chapter. First, population density, particularly in urban centers, matters. The population needs to be organized close to vital government resources to have an impact. The Communist Revolution may have started in the countryside, but it was most dangerous in major cities like Shanghai. Second, access to communication technology and transportation matters. Without an ability to communicate ideas, organization around a particular policy issue is nearly impossible. Without transportation, the peasants would not have been able to see the income disparity between the rural and urban parts of China.

Alternatively, social globalization may be posited as an appropriate measure of social strength. Looking back over the past 150 years of Chinese history, the influence of international pressures and ideas becomes apparent. First, Marxism traveled to China through urban centers. Thus, as China urbanized, its society was exposed to these revolutionary new ideas. Second, better communication and transportation technology not only create a better-connected society, it also created a society more connected to other societies. Third, the student movement was, and is, an important revolutionary force. In 1911 *international* students in Japan helped to focus revolutionary fervor, in

1989 students protested a Tiananmen Square, and today Chinese students continue to protest. All of these, and other, indicators of societal strength will be developed further in the next chapter.

This chapter also indicates that measures of the state's power are pretty straightforward. The times when the government felt itself losing power coincided with the times when its military forces were severely weakened. Logically, a weak military means that the state is less secure. This applies to the foreign as well as domestic arenas. The military served not only to protect the state from external intruders, but also from domestic rebellions. Thus, the state felt less powerful and the society empowered. In order to maintain control, the government then had to implement reforms.

The case study, however, does not *necessarily* indicate that relative power is the more important driving force. Absolute power could also be an explanation of economic development. In other words, the society could be the main driving force behind economic development regardless of state power. In China's history examined here it would be hard to imagine the Chinese government compromising when it did if the society was weak – even if its military apparatus was weak as well. Such a hypothesis does not conflict with the model outlined in chapter one. The incentives matrix for the society and the state remain the same, but the emphasis would be upon the society's power rather than equally upon the state's and the society's power.

In the next chapter, I will explore three separate models. In the first, I investigate the society versus state power ratio and its impact upon economic development. In the second model, I investigate the domestic power of the society. That is to say that I intentionally try to leave aside measures of globalization to look at how the society's

domestic power impacts economic development. Third, I use a measure of social globalization to tease out the impact of the interconnectedness between societies upon economic development. In order to compare the relative affects of each model, I will run regression models and analyze their findings. Doing so will aid the in identifying the appropriate interpretation of China's history. It will also help to determine potential paths for future research.

Chapter 3

Generalizability

This chapter has two goals. First, it seeks to expand the generalizability of the theory proposed in chapter one beyond the exploration in chapter two. Second, it seeks to compare the competing interpretations briefly discussed at the end of the previous chapter. To do this, I construct several regression models. I first outline the ways in which I measure my dependent and independent variables. I also investigate the creation of appropriate controls based upon the case study analyzed in chapter two as well as other works. Finally, I run the regression models. These models analyze the proposed relationships in a few different ways. The first model explores the impact of the society versus state power relationship upon economic development. The second model uses only the measure of domestic societal power as the independent variable. The third, and final, model analyzes how the level of social globalization a country exhibits impacts economic development. I now proceed by exploring how to measure economic development, as it is the common feature of all three models.

Economic Development

How I define economic development will have important consequences for the outcome of my regression models. Fortunately, I have already explored the concept in the previous two chapters and am now in a good position to describe exactly what I mean by economic development. Economic development does *not* equal economic growth. Economic growth involves simply the increasing size of a state's economy. It does not speak to the institutions, nor does it speak to the freedom of the citizens of the state to

pursue their individual economic interests. In this study, institutions - and the freedom of individuals therein – are crucial to understanding the economic development of a state.

This is what is meant by the shift from extractive to inclusive institutions.

Extractive economic institutions are those institutions whereby the state apparatus utilizes its power to concentrate wealth at the top. Normal citizens, the society, are unable to make choices regarding their own economic freedom and are not rewarded for the quality of work that they do. A great example of this from modern history, and sketched in chapter two, was the collectivization of the Chinese society under the Communists – particularly in the 1950's and 60's. Under these policies, the peasants did not own personal property. Everything belonged to the commune and, by extension, the state. Anyone who refused was severely reprimanded. The peasants had little to no choice in the types of economic activity they pursued and they were not rewarded according to their work. The state was the main benefactor of the peasant's economic activity.

Inclusive economic institutions are essentially the opposite of extractive economic institutions. Inclusive economic institutions give the society the freedom to pursue whatever type of economic activity it chooses. Of course, this is a bit of a simplification. All states have some sort of regulatory institutions that preside over major macroeconomic decisions. In the United States, for example, one of the most important economic institutions is the Federal Reserve. While the Federal Reserve is supposedly considered an independent bank in the sense that it supposedly operates independent of the government, the chairman of the Fed is still a politically appointed position. Outside of the financial sector, laws passed by Congress penetrate deeply into the economy. Since the economic crisis of 2008 laws have been passed to regulate many aspects of

banking. Furthermore, taxes levied by the state both directly and indirectly affect economic interactions. These regulations, leaving political debate aside, are not *necessarily* bad or good things. An efficacious state is a requirement of a vibrant economy, just as much as an efficacious society. When they become particularly onerous, though, then that signals a shift towards extractive institutions.

Economic development, then, is a shift from extractive institutions to inclusive. Often economic development requires economic growth. In the China example outlined in chapter two, economic growth generated revenue that the state then invested into the state's infrastructure. This in turn strengthened society, which later compelled economic reform. Furthermore, as Acemoglu and Robinson (2012) have argued, in order to sustain economic growth states *must* develop inclusive economic institutions. Such claims will have consequences for the independent and control variables to be discussed later.

To proxy the level of inclusive institutions in a country, this study utilizes 2010 data from the *Economic Freedom Index* (Heritage, 2013). This measure, put out by the Heritage Foundation,¹ is a composite of a number of different categories designed to measure the “rule of law,” “limited government,” “regulatory efficiency,” and “open markets.” For my purposes, I am most concerned with the measure of “open markets.” In particular, I utilized the measures of investment freedom and financial freedom. Investment freedom measures the ability of citizens and businesses to move capital both between ventures and around geographically. Financial freedom measures the degree to which the state owns and controls the banking system in the country. In both cases,

¹ I was initially concerned with using this data source due to particular partisan biases. Fortunately, reviewing their data and the descriptions of such data indicated that these measures were compiled using highly reliable sources, such as the *Economist Intelligence Unit*, the World Bank, and the IMF.

higher scores indicate freer environments. I chose these measures because they best capture the level of a country's economic development in the sense that they measure the degree to which the citizens can control their own economic activities free of government intervention. The measure of economic development consists of the average of investment and financial freedom. Finally, I scaled this measure so that the minimum value equals zero and the maximum value equals one. I did this to aid in the interpretation of the regression results as well as make it more suitable to compare to the independent variable, as will become apparent at the end of the next section.

Model One: Society and State Power

One of the more difficult things to measure involves exactly how to get at societal power. The previous two chapters point to some potentially useful measures. Specifically, I take societal power to be the result of a number of factors that include infrastructure, the ability to communicate, geographical proximity to political and economic centers, as well as tertiary education. These factors appeared to have the most impact in the case study in terms of the society being able to put pressure on the government to institute economic reforms. The issue then becomes: how do I adapt these measures to reflect the 21st century? The history I analyzed spanned more than 600 years. Fortunately, there are modern corollaries that can easily be substituted to accurately measure societal strength.

As we saw in chapter two, the ability of the population to move around played an important role in strengthening society. A major improvement in societal strength occurred after the imperial court constructed the Grand Canal and many bridges that facilitated travel. Today it is not so much the ability to travel on the water that is as

important as the existence of a viable road network. Such a network enables the society to move around. It enables the society to gather in urban centers where it can put pressure on the government. And therein lies the key.

Earlier in the case study, I showed how peasants initially moved westward in search of opportunity. This did nothing to pressure the government to reform. What really mattered was urbanization. A high concentration of disgruntled peasants close to vital economic and political centers is far more dangerous to the state than disgruntled peasants hundreds of miles away – especially if they cannot easily travel. Thus, measures of a country's road networks as well as a measure of a country's urbanization are both important indicators of the ability of the society to leverage against the state. I gathered the data on roads from the *CIA World Factbook* (CIA, 2013) and the 2010 urbanization data from the *World Development Indicators* (World Bank, 2012), which is published by the World Bank. The data on roadways is a little problematic since 2010 data is not available for all of the countries. Here, I used 2010 data if it was available or the most recent data if it was not. To get a sense of the level of road network development for each country, I divide the total number of roads by the amount of territory of each given country. This can, in particular cases, be problematic. For example, only a small fraction of Libya is readily habitable so the people only live on a fraction of Libya's landmass. Thus, my measure of road density will appear lower than the reality on the ground. This is not a major problem for two reasons: (1) this is not as much of a problem across cases and (2) if anything, that the measure of road network density is lower than it is in actuality will, in fact, make it harder to confirm the proposed relationship. Thus, even though this is only one component of the measure of societal strength, the regression will

err on the side of disproving the relationship, which will make the actual relationship stronger than it appears in the results.

Communication is another important component of societal strength. It is this area that has evolved the most over the past few hundred years. Modern technology makes communication very quick and easy. Hundreds of years ago, long distance communication involved a lot of time and expense. Communication is key because it enables disgruntled segments of society to coordinate over great distances on a particular issue. Today, the Internet is perhaps the most important manifestation of this ability. Interest groups can create webpages, videos, and organize events with great ease. This ability has only increased with the advent of social media. Thus, I utilize a measure of Internet use get at the ability of the society to communicate with one another. Fortunately, 210 data is readily available through the *World Development Indicators* (World Bank, 2012).

The final component I analyze to get at a measure of societal strength is a measure of the level of tertiary education. The case study in chapter two showed the potential of students and faculty in higher education to foment dissent. This was particularly important around the revolution of 1911. Why exactly this is true is beyond the scope of this study. It could be that college students are generally more radically minded than the general population, have more free time relative to having to work in the fields, or their education allows them to have a better perspective on their own economic situation. Whatever the cause, a robust higher education system contributes to societal power. Utilizing the *World Development Indicators* (World Bank, 2012), I collected the measures of the percentages of the relevant age group in each country that are enrolled in

tertiary education in 2010. This measure has an additional advantage not previously discussed. Higher percentages indicate not only the amount of students enrolled in tertiary education, but it also speaks to the endurance of the higher education system. Higher numbers indicate that the system has been an institution over a longer period, over which time it built its numbers.

Before calculating a measure of the societal power, I scaled all of the indicators already discussed so that the maximum value equaled one. This ensured that all indicators were given equal weight when I took the average. After taking the average of all of the indicators for each country, I again scaled the measure of societal power so that the maximum value equaled one. The reason for doing this is twofold. First, I allows me to set the country with the highest societal power equal to one, which aids not only interpreting the regression results, but also enables me to accurately compare it to state power – a subject to which I now turn.

State power in this study is far more straightforward than societal power. State power amounts to the military and policing capabilities of the state. This is not only true of China's experience, but also of South Korea, Taiwan, and other late late-developers. These forces enable the state to keep a grip on its society. With the backing of a strong and loyal military and police force, the state can be relatively assured of its position vis-à-vis the society. Just look back at chapter two for some examples. Prior to the crumbling of the Qing Dynasty, the imperial court twice tried to implement sweeping reforms to stave off utter ruin. These last ditch efforts occurred when it became readily apparent that the state no longer had a reliable and effective military force. Fortunately, military figures for 2010 are very easy to find in the *World Development Indicators* (World Bank,

2012). Data on police forces around the world in 2010, however, were harder to find. For this data I relied upon the *International Statistics on Crime and Justice* (UN, 2013) and Interpol (2013). I was not able to find 2010 data in every case, and where I could not I utilized the most recent data available. I summed the number of police and the number of military to get a sense of the total raw number of military and police forces of each country. Next, I divided this raw number of the population of each country to get at just how large the state forces were relative to the total population. Finally, I scaled these numbers so that the maximum equals one. I did this for the same reason I scaled the society measure the same way. It enables me to more easily interpret the regression results and create the required ratio with societal power.

It is this ratio that constitutes the independent variable for Model One. The independent variable of this study has always been the power relationship between the society and the state. To capture this, I divided the measure of societal power by the measure of state power. I then scale this number so that the lowest value equals zero and the highest equals one. Thus, scores closer to one indicate a relatively stronger society, while scores closer to zero indicate a relatively stronger state.

Model Two: Social Development

The second model I explore concerns only the impact of the level of social development upon economic development. The usefulness of this model is that it enables me to compare domestic sources of societal power to the model that concerns social globalization, which I will argue below is an international source of power that the society possesses. My measure of social development flows easily from the measure used in model one. I utilize the same measures of social power as in model one, except

that here I do not divide this social power by state power. I also scale social power from zero to one, rather than simply scaling so that the maximum value equals one. I do this for two reasons. The first is that starting with zero makes the intercept meaningful, as its value is equivalent to the value of the country with the lowest social development. The second reason is that this measure is not a ratio. Before, setting the denominator so that the minimum value equaled zero would artificially create an undefined observation. Since the denominator – state power – was scaled in this way I had to scale the numerator in a similar fashion to ensure that they were given equal weight. Without the risk of a zero in the denominator, I can scale this measure from zero to one to aid interpretation as indicated above.

Model Three: Social Globalization

The third model explores the impact of social globalization upon economic development. I do this for a couple of reasons. The first is that three of the measures used to measure social development can also be viewed in light of their globalizing impact. Tertiary education may be a place where the society develops a revolutionary ideology, but the reason for this is different than the one posited in model one. In model one, I speculated that the impact of higher education itself was revolutionary or that those who attended institutions of higher education were more disposed to revolutionary activity. An alternative to these interpretations, however, may be that higher education provides a global perspective. A society that transitions from basic subsistence agricultural practices to being able to attend college certainly gains such a perspective. Rather than concentrating on the immediate and proximate, horizons are expanded.

Additionally, students may travel abroad to higher education, bringing with them new ideas and customs.

Urbanization likewise has an alternative, global interpretation. In model one, I posited that urbanization serves as a proxy for how close society lives and works –and protests – to economic and political centers. An alternative explanation, however, is that cities provide foci of globalization. Colleges and other higher education institutions tend to concentrate in cities, foreign visitors are attracted to cities, as are international businesses and foreign politicians. Thus, the larger the portion of society that lives in urban areas, the greater the exposure to international ideas and customs, which in turn expose the society to different forms of governance and economics.

The Internet likewise has domestic and international aspects. In model one, the domestic aspects are emphasized, but the international aspects are also worth noting. The Internet spans not only across countries, but between them as well. People are able to communicate via social media, Skype, Internet phone, and e-mail – to only name a few. Now, people do not have to be in urban centers to be exposed to new ideas and ways of doing things. Globalization can now reach into everyone’s homes via the Internet. Thus, Internet usage is also an important measure of globalization. The question then becomes: how best to measure social globalization?

Following the lead of de Soysa and Vadlamannati (2011), I utilize the KOF (Dreher, 2006; Dreher, Gaston, & Matrens, 2008) globalization index for the year 2010. This index comprehensively measures globalization under three separate categories: economic, political, and social. In creating this particular measure, I am most interested in KOF’s measure of social globalization. Social globalization is made of up three

separate sub-categories. The first sub-category measures international interpersonal contact by utilizing measures of telephone traffic, monetary transfers, tourism, the level of foreign people living in-country, and letters mailed internationally. The second sub-category measures “information flow” between countries using measures of Internet users as well as the level of TV and newspaper subscription. Finally, the third subcategory measures “cultural proximity” by using measures of the number of McDonald’s and Ikea’s in addition to the level of international book trade. All of the three sub-categories are given roughly the same weight when calculating the final measure of social globalization. All of the measures outlined here capture an important aspect of social globalization in the modern era. Finally, this measure was scaled from zero to one to aid interpretation.

Controls

This study utilizes five controls in order to more accurately capture the relevance of each of the independent variables outlined above. Each will now be briefly discussed in turn. The first two controls seek to control for the affect of other economic explanation of economic development. The first control measures economic growth in 2010 of each country as a percentage of GDP. The logic behind this control is that as a country grows it may develop more modern institutions. The second control in this group seeks to control for the economic globalization of a country. Once again, I turn to the KOF index of globalization to create this measure. Fortunately, KOF already provides an adequate measure of economic globalization, which includes international trade, financial investments, as well as trade restrictions imposed by the country in question. The idea here is that countries that trade with one another may actually

influence each other through policy diffusion (Simmons and Elkins, 2004). Additionally, countries may withhold trade to punish the target country for lack of economic development. This process produces incentives whereby states seeking to attract trade, and FDI for that matter, reform their political and economic institutions. This is particularly important in light of evident that state will compete with one another to attracted foreign investment (Elkins et al, 2006).

The second group of controls seeks to control for political phenomena.

Throughout this paper, I have posited that political and economic reform are separate, if closely related, phenomena. Thus, I include both a measure of political globalization and a measure of regime type. To measure political globalization, I once again rely upon 2010 data from the KOF index of globalization (Dreher, 2006; Dreher, Gaston, & Matrens, 2008). This index measures political globalization as a function of diplomatic interaction. Here, just as in the economic and social realms, I would posit that political policies have a chance to diffuse across borders. For the regime type measure, I utilize the Polity IV 2010 data (Gurr, Marshall, and Jagers, 2011), which create a score based upon the democratic and authoritarian characteristics of each country. One final control measures the human rights practices of each country since de Soysa and Vadlamannati (2011) have found a strong connection between globalization and human rights practices. In order to measure this, I rely upon 2010 data from the CIRI Human Rights Dataset published by Cingranelli and Richards (2010). In particular I use the measure of worker's rights in each country, as this part of the dataset is most relevant to my investigation.

Finally, I scaled all of the control variables from zero to one to aid interpretation. The results from these regression models are displayed in Table 4. The first three columns present the results using only the economic control variables and the second three columns present the results using all of the control variables described above. The last row indicates the number of countries involved in each analysis.

Results and Analysis

The models present evidence to support the globalization thesis as shown in Table 4. There is little evidence to suggest that the society/state power ratio as presented here has much bearing upon economic development, at least as I defined it here. The key variable in model one has little significance. Indeed, once all of the controls are taken into account the effect of the society/state power ratio is statistically insignificant. Taken in the context of model two, it appears that the state power's effect, if any, is to make the model statistically insignificant. Model two only uses the measure of social power that was developed for model one. As you can see, once state power is dropped from the equation, the model becomes more significant. However, once all of the control variables are accounted for, this model becomes statistically insignificant as well.

Models one and two have only accounted for domestic sources of social power. Model three utilizes a measure of the international sources of social power. As you can see, model three remains statistically significant even after all of the control variables are taken into account, which supports the notion that international societal connections play an important role in economic development. While the regression models examined here are limited in terms of speaking to causality it does enable me to say two things. First,

Table 4:

Robust standard errors in parentheses; *** indicates $p < .01$, ** indicates $p < .05$, * indicates $p < .1$

	Economic Development (Model 1)	Economic Development (Model 2)	Economic Development (Model 3)	Economic Development (Model 1)	Economic Development (Model 2)	Economic Development (Model 3)
Society/State Ratio	.1257* (.0677)			-.0377 (.0865)		
Social Development		.2668** (.1044)			.2020 (.1412)	
Social Globalization			.2952*** (.0747)			.2133** (.0876)
Economic Growth	-.1755 (.1591)	-.1651 (.1318)	-.0868 (.0935)	-.1879 (.1450)	-.1827 (.1184)	-.1009 (.0872)
Economic Globalization	.7456*** (.1540)	.4699*** (.1559)	.3965*** (.1156)	.5473*** (.1399)	.3021* (.1613)	.3213*** (.1181)
Political Globalization				.0856 (.1095)	-.0036 (.1007)	.0283 (.0817)
Regime Type				.1172 (.1208)	.1982** (.0817)	.1641** (.0641)
Worker's Rights				.1931** (.0812)	.1136* (.0575)	.1043** (.0477)
Constant	.1905 (.1675)	.2281** (.1148)	.2549*** (.0707)	.1439 (.1740)	.2368* (.1420)	.1630* (.0940)
N	74	95	130	71	91	119

social power is relatively more important than state power in terms of its effect on promoting or suppressing economic development. And second, international sources of social power matter more than domestic sources, which may matter very little in this process.

Such a claim does not invalidate the model proposed in chapter one. The main claim that chapter one tried to make is that understanding the incentive matrices of the society and the state as well as their relative power relationship helps to explain economic development. It then explored potential sources of domestic and, briefly, international power for the society in addition to the sources of state power. This chapter places the emphasis squarely upon the international sources of social power. The ability of the society to access and exchange information internationally has a profound affect on whether or not that state develops. The mechanism that drives this process lies in the alternative conclusion I examined at the end of chapter two, but is worth working through in a little more detail below in the conclusion of this study.

China In Context

In analyzing China's developmental experiences it becomes clear that the state's drive for economic growth sows the seeds for a more powerful society and, as a consequence, economic development. This is particularly true for "late developers" like China. In the later half of the Qing Dynasty, China developed the infrastructure that allowed the society to travel and communicate. Additionally, foreign powers pried open China and began trading – in ideas as well as goods and services. Marxism was introduced from abroad. Chinese students began to study in Japan, which also had considerable European influences. Discontent at the inadequacies of the Qing court

fomented. This discontent led to the Chinese Revolution of 1911 that overthrew the Qing Dynasty and ushered in an era of chaos.

What is interesting, however, is that the growing discontent coincided with halting attempts at economic, as well as social and political, reforms. The government tried to maintain its grip on power, though it eventually failed. As we can see from chapter two, China's drive to extract wealth led to the creation of the infrastructure that aided social globalization. This, in addition to the presence of foreign influence, created a mobilized society. This mobilized society would not only revolt in 1911, but also in 1949 and it continues to this day. China is now a very globalized society, particularly since its economy has taken off in the 1980's. Indeed, China's society revolts often. One estimate indicates the 180,000 small-scale revolts took place in 2010 (Jacobs, 2011). The Chinese government allows such revolts for now. In fact, such small-scale protests may actually be good for the government (Lorentzen, 2010). Should they coalesce into a larger movement, though, such mass protests could become a real – and bloody – political problem (Platt, 2012). But it is precisely this coalescence that will strengthen society to the point that it can begin to effect more sweeping economic and political reforms.

Conclusion

As mention above, the findings presented in this chapter support the model constructed in chapter one. So long as society maintains its strength, the inclusive economic institutions are secure. If, however, the state becomes too strong, such as during China's "Republican" period, extractive institutions may reemerge. This occurs despite the level of social globalization a society may have. This explains why China's

society lost the inclusive institutions that it had initially sought in 1911. Such an occurrence warns against placing too much emphasis upon either state or societal power. A state that is efficacious is a prerequisite for economic growth and subsequent development. Societal power grows within this context and is the more proximate cause of economic development. Social power, however, can become irrelevant if the state is able to regain and concentrate its power through coercive means.

The results of this study should be viewed only as a modest look at a very complex process. All of the developmental processes examined here are closely intertwined. This presents some interesting challenges when developing more rigorous regression models. Previous studies of economic development have typically been qualitative in nature or have defined economic development more in terms of economic growth. While economic growth is certainly an important source of later economic development, it is not the most proximate cause. Social globalization is an important component in making the state develop the required inclusive institutions for continued economic growth.

An interesting implication of this study as a whole, however, is that wealth extraction contains within it the seeds of its own demise. Taking a look once again at China, it becomes apparent that the infrastructure created by the state to improve its own administration enabled the society to develop. It built roads and waterways, routes that the society then used to its advantage. Communication technology, among other improvements, developed and enabled international communication, just as foreign influence began to enter into China. These examples illustrate the ways in which the state utilized gains from economic growth through extractive institutions to reinvest in

the country with the intent of extracting more wealth. In response to these changes, China's society and societies generally are able to strengthen and begin to assert themselves. This then contributes to economic development and helps ensure continued economic growth.

From this study come a number of suggestions for future research. First, while this study has been situated in a comparative perspective vis-à-vis previous research, other case studies should be conducted to explicitly explore the model postulated in chapter one. Second, this model can be further refined utilizing game theory to more formally define the assumptions and the conclusions of the model. While what I have outlined here has been sufficient for this study, more explicit renderings of the model will help to refine the empirical portions of the study. Third, panel data would greatly improve the validity of the findings shown in this chapter. The regression models used only cross-sectional data, which was sufficient for the purposes here, but further refinement of this theory will require more extensive data. Fourth, follow-on regression analyses should further develop controls for use. Given the inclusive nature of globalization and development, appropriate control variables need to be carefully constructed. Sixth, and finally, this model can be applied to other areas of development, such as political development. Each of these different possible avenues of research will aid our understanding of development and shed light on some of the more interesting questions in comparative politics.

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