

The Paradox and Pitfall in an Analytical Approach to China's Politics and Economics and The New Perspective

이응권(Eung-Kweon Lee)

건양대학교 전자상거래무역학과 교수

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Abstract

The sudden emergence of China as a superpower in world politics and economics is apparently a big surprise. This, however, is not an unusual incident. As far as the Chinese are concerned, they say that China is simply running almost the same track that its neighboring countries. In the recent years, a number of experts and scholars have expected that the emergence of China as a great economic power will be argued as a major issue in world politics and economics. So its economic progress will require experts and scholars to watch carefully how China is going to change. It certainly has created an atmosphere

that most of the world leaders, experts and scholars are very concerned about China's remarkable performance in its economics and then willing to accept China's rapid growth as an urgent matter. Many experts and scholars began to analyze carefully the factors that have contributed to the rapid growth. Foreign direct investment (FDI), import-export, and economic reform were then listed as the most important factors.

As a result, philosophy of economics, analytical economics, and economics are immediately needed for China who is at the moment very anxious to sustain the stable and continuity of rapid economic growth. But unfortunately China does not even recognize the reason why they need to adopt these economic concepts and methods.

Key Words : Paradox, Pitfall, Politics, New Perspective, Miracle, Economics, Surplus, Strategy,

I. Introduction

The sudden emergence of China as a superpower in world politics and economics is apparently a big surprise. This, however, is not an unusual incident. As far as the Chinese are concerned, they say that China is simply running almost the same track that its neighboring countries such as Japan, Korea, Singapore and Taiwan have already gone through. In contrast, it has appeared to Western experts and scholars as a miracle. Not long ago, these people were excited and did not hesitate to describe Japan and Korea as the countries who had achieved the Asian miracle. In the 80's the world began to look at Korea, Singapore, Hong Kong and Taiwan as the four "Asian Dragons" believed to play the role of growth-driving engine.

In the recent years, a number of experts and scholars have expected that the emergence of China as a great economic power will be argued as a major issue in world politics and economics.¹⁾ So its economic progress will require experts and scholars to watch carefully how China is going to change. It certainly has created an atmosphere that most of the world leaders, experts and scholars are very concerned about China's remarkable performance in its economics and then willing to accept China's rapid growth as an urgent matter. Many experts and scholars began to analyze carefully the factors that have contributed to the rapid growth. Foreign direct investment (FDI), import-export, and economic reform were then listed as the most important factors.

Statistics have shown that most of foreign direct investments (FDI) have flowed from Japan, U.S, EU, Hong-Kong and Taiwan. The annual amount of FDI has climbed rapidly from the early 90's to the present (from \$4.4 billion to \$154 billion) with 10% market share of the global total.²⁾ FDI has concentrated on the areas of motors, transport equipment, electronic devices and elements and waterway shipping. These areas indicate that foreign enterprises do prefer to invest in technology and capital intensive industries. In recent years, foreign firms are tending to invest in R&D in China by establishing near R&D organizations.

In the 80's China's exports depended on light and labor-intensive goods and products taking advantage of the abundant supply of labor and its low cost. But in the 90's as FDI surged China attempted to promote the export of capital and technology-intensive products which are crucial not only for economic development but also to catch-up with advanced countries. In 2001, China's accession to the WTO provided a new momentum to participate in the world export-import market and to boost the volume of exports and imports. The ever increasing foreign trade facilitated to build up a tremendous foreign exchange reserve, which

1) Hale, Davide & Lyric H. Hale, "China Takes Off," *Foreign Affairs*, Nov/Dec. 2003, pp.36-53.

2) Jang, Xiaojuang, "Prospects and Analysis of FDI in China," *China & World Economy*, vol.13, No. 4, 2005, pp.34-43.

allowed China to escape from the 90's Asian financial crisis.

Statistics show that between 1994 and 2003 exports increased from \$121 billion to \$438 billion while imports increased from \$115 billion to \$413 billion. The net surplus also jumped from 5 billion to 25 billion. China's share of the world's exports was 0.79% in 1978, but in 2003 it had increased to 6.3% ranking it 4th in the world. The huge surplus and FDI pushed up the foreign exchange reserve from \$110 billion to \$4,706 billion between 1990 and 2004.

Such big increases have made China sustain its high economic growth rate through the 80's, 90's and now with its average in the double digits. The rapid growth was also possible by opening the domestic market to the world by employing the policy and strategy of a market-oriented economy and the liberalization of the economic system.³⁾ Once the gradual opening, marketization and modernization warranted the high economic growth and development, China's leaders and people began to believe that it was quite possible to build up China as the regional and world leader in solving the problems of territorial security, nuclear weapons and their proliferation and the hegemony in the world raw material market.

From the 80's China began to fortify its defense forces by modernizing its military weapons. China attempted also to develop an arms industry and exerted great effort not only to advance nuclear weapons and ballistic missiles, but also to launch a space-satellite for the purpose of military surveillance. China has not constrained itself for the development of advanced weapons but also tried to export cruise missiles and intermediate-range ballistic missiles to the far-East countries and nuclear-material, equipment and technology to South American and Asian countries. In recent years, China has begun to intensify its foreign relationships with third world countries and the EU while not avoiding the conflict between U.S. or Japan likely arising from the Taiwan unification issue. Domestically, in order to seek strong support from the people and to consolidate their political position China's leaders stir nationalism and inspire the people to maintain a tough opposing attitude against the western countries. In 2005, to challenge the U.S.-Japan's joint military exercise in the Pacific Ocean, China and Russia attempted a large-scale joint military exercise in the both of their countries.

Excellent economic performance and rising as a superpower in foreign relations based on strong nationalism and military build-up could not fail to attract a great deal of attention from most experts and scholars in the world. This has certainly ignited a hot debate about how long China's rapid economic growth will be sustained along with playing the role of a big power in foreign relations. They have also begun to argue about whether or not such economic performance and strong political leadership will threaten the security, stability and balance of power in international relations and destroy the economic order and

3) Gore, Lance L.P. "The Communist Legacy in Post- Mao Economic Growth," *The China Journal*, Issue 41, January, 1999, pp. 25-54

system in the world economy.

In early 2000, Andrew D. Marble defined the nature of debate and focused on why the debate could be triggered as a big issue. It was suggested that some differences among type of problem and policy analysis, analyst's analytical background and traditional Sinological school are the main causes. When these intersect with the new environment such as massive changes in China, epistemological changes in the China studies and twists in the world system opposing views pop up to debate each other. Gordon G. Chang further insisted that China will collapse in the near future. Although China has achieved the high economic growth and built up a strong military power sufficient enough to become a superpower in the world economy and politics, China will be sooner or later collapse due to internal socio-political turmoil, inequality in income distribution between the coastal and the inland provinces, corruption and unemployment.

The debate on the threat of China has not been limited to world politics and international relations. China's accession to the WTO has raised the stakes for not only Asian neighbors but also the advanced countries. It is believed that as a rising power, China's increased prominence will eventually bring economic turbulence and dislocation into export-import and raw-material markets for its neighbors and the world economy. A number of experts and scholars argue whether China's accession to WTO will be a threat or an opportunity.⁴⁾

Eric Girardin however argued that although some experts claim that China's economic power will make its neighbors vulnerable in the foreign trade and raw-material market that is not true. He showed some empirical evidence that Chinese growth and its shocks and temporary interruptions have no significant impact on its neighbors. Yunling Zhang further insisted that China's economic power has generated both challenges and opportunities to the outside world. What he tried then to emphasize was that China's economic growth is one of the key factors in pushing the world economic growth.⁵⁾

Recently, Ross Garnaut has strongly claimed that China is exerting all efforts to reform and change its economic structure and system. It is said that even though reform in China has not been a smooth or a pain less process, China's real economy has expanded greatly with reform. Over the last couple decades China has emerged as the most dynamic player in the world economy. Growth in output and in external economic relations is as rapid in China as in any of the East Asian economies. As China was excluded from the World Bank's East Asian Miracle in 1993, Garnaut insisted that China's rapid economic growth is certainly resulted not from miracle but from reform and change.

Along with Garnaut's claim, most Chinese scholars and political leaders have not hesitated to express their

4) Panitchpakdi, Supachai & Mark L. Clifford, *China & the WTO*, John Wiley & Sons, 2002, pp. 101-125

5) Zhang, Yunling, "China's Economic Emergence & Its Impact," *Rising China & the East Asian Economy*, KIEP, Seoul Korea, 2004, P37-53.

strong conviction that China's economic growth and development are being achieved not by chance but through integrated efforts of the people and strong leadership. It is also said that nationalism which has filled the vacuum created right after the eclipse of communism, has greatly played the role of a driving force to rally the people.

So far, this paper has mentioned the opposing viewpoints expressed by experts and scholars in the evaluation of China's rapid economic growth and strong military power. The most surprising fact is that all experts and scholars are completely different in their viewpoints against each other. Some say that China's economic growth and its emergence as a superpower in the world is absolutely a miracle while others insist that it is not. Further, some say that China's economic growth and political power will threaten the regional and world security and economic order while others claim that China will not challenge but cooperate with its neighbors and the advanced countries in international relations and the world market as it has done so far in the past.

It is very confusing and quite difficult to determine which viewpoint is more realistic and true. If we look at them individually as an independent case, it appears that all of them are realistic and true since they maintain a consistency in analysis to support their goal or hypothesis. The problem is then why do all of the viewpoints end up in a completely different or opposite conclusion, although they analyze the identical fact or phenomenon at the given time and space.

This paper intends to argue that this ridiculous and strange incident has created a paradox which likely resulted from the lack of academic knowledge and analytical capability to examine more accurately and realistically China's economic growth and political power. Also, it must be pointed out that the statistics being used to support their hypothesis are often inappropriate and manipulated in empirical studies.

II. Asymmetry and Divergence

One must examine what China's threat means and why it continues to be a hot issue to debate in international relations and world economy. Also, to be examined is whether or not China's rapid economic growth poses a great challenge to its neighbor's and the world economy. There are obviously two opposite groups of experts and scholars arguing against or for the issues of threat and challenge showing completely different viewpoints.

In politics and foreign relations, the debate began after the collapse of the Soviet Union and is still the most concerned topic among experts and scholars. In contrast, the issue of challenge emerged right after

China's accession to the WTO and is now being intensified as China dominates not only foreign trade and FDI but the raw-material and energy market.

First regarding politics and foreign relations, in the 70's US and China relations were normalized by Pong diplomacy after the Korean War. As both sides recognized that the friendship between U.S. and China was vital and beneficial to world peace, they tried to establish a good relationship and to pose a cooperative attitude toward maintaining world security and order. In the 80's China somehow emerged as one of the world leading arms sellers and the leading supplier of low-cost arms to the Third World. The People's Liberation Army(PLA)'s brutal suppression of unarmed demonstrators at Tiananmen Square and elsewhere in China outraged the U.S. with a great shock and brought a devastating effect on the perception of Deng Xiaoping's China.⁶⁾ High-ranking and military visits were suspended and military sales of all items were also banned. These sanctions were designed to protest PLA's brutal suppression and protect human rights. In the 90's China continued to test atomic weapons and to provide Pakistan with M-11 missile components. The tension in the Taiwan strait was intensified by alarming Japan to worry about regional security.

Under such strained circumstances, in the 80's Harry Harding began to argue that China's world influence continued to increase. Due to the country's size, strategic location and independence from the two superpowers it was able to occupy a "swing" role in the world affairs that no other country could match and plausibly threaten to shift sides in the world strategic balance, moving from alignments with one superpower to tacit cooperation with another.

In the 90's Deny Roy indicated the possibilities of a "China Threat" to become a hotly debated topic and the most pressing to question in the future. What he tried to describe were that arguments for viewing China as a threat are generated from the factors as military build-up, Chinese Communist Party (CCP) values and great power which behaves like a great power. Chinese defense spending has risen significantly in recent years was also pointed out. Roy insisted that all of these prompt many experts to ask why military funding is increasing when external threats to the China's security are at an all-time low. It is further said that China's military modernization has included acquisition of weapon systems that boost the PLA's capability to project power beyond China's shores. At the time, the tendency is that political liberalization, democratization, the peaceful resolution of disputes and respect for international law are on the increase while authoritarianism, state sovereignty, nationalism, indifference to world public opinion and the use of force to settle disputes are on the wane. However, China has often appeared to go against the tide. Beijing has also generated bad feelings among the many outside countries with its poor human rights record. Roy indicated that China's productive capacities and total wealth achieved by the rapid economic growth will

6) Dreyer, June Teufel, "U.S.-China Security Relations: Past, Present, & Future," *Issues & Studies*, 36, no. 4(July/Aug. 2000) pp.33-65.

soon outstrip those of its neighbors and exert more control over the world economy.

In the 2000's, Andrew D. Marble defined "The China Threat" as a fierce debate rather than being an argument based on and if and to what degree China threatens the international community.⁷⁾ Marble, Andrew D, "The PRC at the Dawn of the Twenty-first Century: "Why the China Threat" Debate?", *Issues & Studies*, 36. no.1 Jan/Feb 2000) pp.1-18. He concluded that the debate has been conditioned in a historically unique period characterized by the intersection of three main trends. First, China with large land and population is undergoing rapid economic and military developments, the full extent for which is not known. Second, these changes are occurring at a time when China studies are utilizing a wider range of general theories as conceptual frame works from which the debate begins to explain China's behavior and attitude.

Thirdly, these developments are occurring at a time where many of the frameworks for understanding at a time where many of the frameworks for understanding world politics and national behavior are either discredited or are being seriously challenged at both the empirical and theoretical levels.

Bill Gertz joined the threat debate by emphasizing that the great unknowns about the almost opaque Chinese communist system hold many dangers, and not knowing or understanding the true nature of Chinese communism, China's government, and its military power pose the most serious internal threat to U.S. today. Gertz further indicated that communist governments have never responded favorably to concessions. They pocket them and demand more, but they do respond to pressure. The central question underlying the China threat is therefore whether the Beijing regime and direct heirs of those who sacrificed so many millions of their countrymen at the altar of a false god could be formed or not by exposure to the civilizing influence of the West. It was then concluded that the China threat is real and growing and its solution is not trade but democracy.

Recently, Herbert Yee and Ian Storey have itemized the factors which contribute to the China threat perception. The first factor was when China's rapid economic growth following the introduction of economic reforms in the late 70s. The second is the People's Republic of China (PRC)'s authoritarian socialist political system. Since the collapse of the Soviet Union in 1991, China has assumed the position of the last major communist power. Although the third-wave of democratization overturned a number of authoritarian regimes in East Asia, the PRC refused to adopt Western democratic values or to share its centrally controlled political power with the people. The third factor is the PRC's increasing military capability and its impact on regional security. It is true that China's capability to influence regional affairs has significantly increased over the past few decades. The fourth is the fear of political and economic collapse in the PRC resulting in territorial fragmentation, civil war and waves of refugees pouring into

7) Marble, Andrew D, "The PRC at the Dawn of the Twenty-first Century: "Why the China Threat" Debate?", *Issues & Studies*, 36. no.1 Jan/Feb 2000) pp.1-18

neighboring countries. The final factor is rising Chinese nationalism, especially rising anti-American feelings.

During the first decade of China's open door policy, China admired almost everything western from rock and roll to also and philosophy. However, after the 1989 Tiananmen Square incident and the subsequent economic sanctions imposed on China by Western countries anti-Western and anti-American nationalist feelings grew stronger following Beijing's failed bid to host the 2000 Olympic Games. This failure was generally believed in China to be the result of a Western anti-China conspiracy. In the mid 90's Chinese nationalism was symbolized with the publication of "China Can Say No", a book with a strong anti-American tone.

Along with itemizing contributing factors, Yee and Storey did not fail to mention about the theoretical approach. It is suggested that a number of theoretical positions can be utilized to explain the emergence of the China threat.⁸⁾ They are the historical approach, the emergence of China threat. They are the historical approach, the realist school and cultural-institutional perspective.

Conversely, there are a number of experts and scholars who have the opposite viewpoint to the China threat. In the 80's, Jonathan Pollack argued that because China is the largest and strongest power in the Asia-Pacific region, the smaller neighboring countries perceive it as a threat. This misperception combined with the facts of China's limited trade, outmoded military technology and unstable government prevent China from becoming more than a regional power. Pollack then concluded that China will remain a regional rather than world power. China's strategic, economic and technological relations with the west may be justified on the basis of global imperatives but these relations are apparently rooted in China's immediate political and military environment.

It is then said that the exercise of Chinese power will be regional rather than global and the consequences of growth in Chinese economic and military capacities will continue to be felt along China's periphery and not elsewhere.

Hu Yaobang and Zhao Ziyang also joined to argue that China plays a continuing role in world arms control based on the Five Principles of Peaceful Coexistence. These are mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit ,and peaceful coexistence. Hu and Zhao also indicated that the communist party and the Chinese government have stated on many occasions that the primary objective in China's foreign policy is to safeguard world peace. Although the danger of a world war still exists due to the rivalry of the superpowers for hegemony, China is confident that as long as the people of world truly unite and wage a resolute struggle against all expressions of hegemonism and expansionism, world peace can be maintained.

Denny Roy also asserted that there are anti-threat positions which begin the argument that China might

8) Pollock, Jonathan D., "China Remains a Regional Power," *China Opposing Viewpoints*, Greenhaven Press, 1989, pp.161-166.

not be also to develop into a "threat" even if it wanted to. Roy, Denny, op. cit. As China is increasingly bound by interdependence with the world market and its suppliers, the Chinese Communist Party (CCP) could be not but convinced that strong links with the outside world will best facilitate the all-consuming goal of economic development. Roy said that it requires that China has to have a peaceful relationship with its neighbors as serious misbehavior would destroy the political environment and opportunities necessary for economic development. Roy further indicated that while many outsiders are disturbed by China's recent military improvement having an anti-China prejudice. The anti-threat school responds that such attitude and behavior cause an anti-China bias that results from institutional or professional self-interest. Also, he pointed out that there is an enmeshment school which believes it is premature to treat China as an enemy. What it means was that whether a strong China will be a constructive partner or a trouble-maker is still uncertain.

Recently, Herbert Yee and Zhu Feng tried to explain China's response to the China threat issue from three standpoints of view.⁹⁾ First, Chinese leaders normally refute the threat issue by stressing China's independent and peaceful foreign policy. Second, the response of ordinary Chinese citizens to the issue has been largely emotional and it has aroused a strong wave of nationalist feelings. Third, the academic response tends to support the government's stance toward the threat issue. As a matter of fact, all Chinese scholars emphasize that China's socialist system will never seek hegemony, China's development needs a peaceful international environment and China is a peace-loving country with no intention to invade other countries.

On the other hand, some experts and scholars have not limited themselves to the issue of the China threat. They rather prefer to look into the issues of China's political and economic stabilities. As indicated previously, China could achieve a rapid economic growth by taking several drastic reforms. Economic growth has required further reform which in turn requires alternative forms and the switch from a planned to a more market-oriented economy through an economic boom. However, many solutions to the old problems of socialism have themselves turned into new problems, and the period of reform without losers has been replaced by reform with many losers. In the late 90s, the number of losers was larger than any other year of the reform era and it generated the problems with Chinese socio-political and economic stability.

Recently, Steven F. Jackson indicated that China is facing some enormous problems with pockets of unrest, discontentment, protest and outright rebellion.¹⁰⁾ To define these problems as an issue of stability is not an easy task but it is certain that unequal income distribution, dissidents in exile, urban unemployment, state losses, rural discontentment and military group unrest are contributing to China's instability. H. Lyman Miller tried to create a hypothetical definition of instability and indicated that sudden change or

9) Yee, Herbert & Zhu Feng, "Chinese Perspectives of the China Threat: Myth or Reality?", *The China Threat: Perceptions, Myths & Reality*, ed., Herbert Yee & Ian Stary, Routledge, 2002, pp. 21-42.

10) Jackson, Steven F., "A Typology for Stability & Instability in China," *Is China Unstable?* ed. David Shambaugh, M.E. Sharpe, 2000, pp.3-17

transformation is the main factor for instability. Miller described that in China potentially destabilizing change or transformation is everywhere. These could be listed in general as the transformations of economic order the communist party, political process and political discourse.

Li Cheng is not much different from Jackson and Miller's views. The problems China experiences are disparity and unemployment since reform began. Disparity exists in various forms between urban and rural, coast and inland and joint ventures and the state-owned enterprises (SOES). The lack of a social safety net, social unrest and sit-ins in silent protest of Falun Gong are also serious problems which China encounters now. Lucian W. Pye, Elisabeth J. Croll and Wen Feng Tang had almost the same view that in spite of the dramatic economic growth that came with Deng's initial reform, China's economy rests on rocky foundations.

However China is still without a clear collective sense of direction. The anti-government actions have steadily increased, which drives China's reform policy to result in public disobedience, unemployment, insufficient social welfare and the rising income gap has also made growing labor protests nation-wide.

G. John Ikenberry and Michael Mastanduno suggested that the factors contributing to instability could be searched in history, political institutions and economic inter dependence. Gordon G Chang went further to claim that the corruption of party officials and lawless government smolders and unemployment are certainly generating resentment from Chinese people He said that the resentment and the open-door by accession to the WTO will be the most immediate threat to the continued existence of the party and the government it dominates.

Second, the ideas of China being a miracle, challenge, and complementary in the world economy have also become the hot issues to debate. In 1996, Lin et al started to argue that China's economic growth is a miracle. Lin, J.Y, F. Cai & Z. Li, *The China Miracle: Development Strategy & Economic Reform*, Chinese University Press, 1996. In 2001, however, Ross Garnaut concluded that China's sustained and rapid economic growth is no miracle and it will not end in global famine as well as national environment catastrophe as has been contended. The reasons are that the two decades of reform have made rapid economic growth and both China's government and rising income will certainly bring out the will and the capacity to do something about the environmental degeneration that has been associated with urbanization and industrialization.

Recently, F.D. Sachs and W.T. Woo described the miracle debate as a phenomenon like the old story of a group blind scholars pawing an elephant. They then explained the reasons why China could achieve rapid economic growth. The economic structure and its implications of the differing economic structure between China and Eastern Europe and Soviet Union are the first cause and the second is the adjustment under gradual reform. They also commented that although the two viewpoints, the experimentalist school and the convergence school, are debating about China's future growth performance, Sachs and Woo believed that

they are converging themselves to the point that China will become a normal Capitalist economy. It was also said that WTO membership certainly marks a watershed in China's public recognition about the primary source of its impressive growth in the last two decades.

However, Yu-Shan Wu argued against Woo's critique and emphasized that although there are many approaches to argue about China's rapid economic growth such as cultural argument, international environment and historical contingencies, colonial legacy, open-door policies and market reform and developmental state model, his perceived position is on the side that the remarkable performance of China's economic transition justifies a unique way of economic reform and a particular set of non-capitalist institutions.

Chu-Yuan Cheng, Kiyoshi Fujikawa, Shujie Yao, Zongyi Zhang and Wei Zhang have followed the mixed view-points and then they explained the reasons why China could make rapid economic growth through reform, opening-up policy, foreign capital and competitiveness.

Along with the miracle, the challenge and the complementary debates another issue has arisen for hot debate among experts and scholars. China is a rising power. Rising powers are inevitably disruptive to the existing power. The role that China will play in the WTO will be an important indication of China's stance as it moves toward big-power status. However, many experts and scholars are very curious about whether China will remain as a status-quo power or will be more assertive, redrawing rules for its own benefits. If China does emerge as an economic superpower over the next decade, taking advantage of the WTO, the Asian region or neighboring countries won't automatically reap the benefits of China's growth and openness.

Shigeyuri Abe has recently warned that if the economic relationship between Japan and China goes beyond traditional trade and investment, Japanese firms need to change their stance by paying more attention to China's consumer market and avoiding underestimating the capability of Chinese enterprises.¹¹⁾ However, since Japan has still an advantage in the area of technology, it need not be afraid of China's challenge. Conversely, Eric Girardin, Zhang Yunling and Geng Xiao argued that Chinese growth has become beneficial for East Asian economies since the East Asian financial crisis. In particular, Zhang Yunling emphasized that what China requires is not an order for its own domination and control but its development in a peaceful and favorable environment. It is said that a favorable attitude and requirement are certainly being reflected in China's recent active and responsive behavior of its foreign policy.

This paper has so far examined briefly why and how China's threat, miracle and challenge have become the issues that many experts and scholars are hotly debating one another while claiming that their positions or viewpoints are most relevant to understand China's politics and economics. It is however revealed that

11) Abe, Shigeyuki, "Emergence of China & Japanese Economy: Prospects & Challenges," *Rising China & The East Asian Economy*, KIEP, 2004, pp.116-137.

those viewpoints presented by experts and scholars explain partially some parts of China's politics and economics while missing the whole aspect. If we want to know about the real aspect of China, it requires examining its politics and economics from all angles of theory and experience. Otherwise, the viewpoints are likely to be opposite one another without having a mutual relevance like asymmetry and divergence.

III. Paradox and Pitfall

The term, paradox seems to be a little awkward and intriguing to those who are not familiar with academic research methodology. However, it is absolutely needed as an important tool in checking whether or not a hypothesis is properly tested with appropriate data and proved without any faults in the process of analysis. This paper is then going to make use of it as a tool in examining the viewpoints and the studies of China's politics and economics. Therefore, if any of the viewpoints and studies could avoid the paradox and pitfall, it can be said that they are really satisfying the necessary condition to become the most appropriate theory or viewpoint. However, the existences of asymmetry and divergence among the viewpoints indicate that some of the viewpoints have fallen into the traps of paradox and pitfall.

In the 80's, Chalmers Johnson pointed out that the majority of research studies on PCR politics had been done within the wrong paradigm of analysis and although researchers have adopted an appropriate paradigm they have restricted themselves to its mythical rather than operational dimensions. He further elaborated that paradigm refers to the assumptions through which the researcher subdivides the data, asks meaningful questions of it, recognizes and anticipates change and understands why and in what direction change is occurring. Above all, it was said that a paradigm establishes some standards by which an anomaly, conceptually puzzling and confusing can be identified when it occurs. The reason is that a paradigm helps the analyst to separate significant signals from the noise of raw information. Johnson further said that even though some researchers claim that they are only concerned with the facts, their paradigm are often implicit unarticulated and a source of error. Research can't be purely factual since data becomes usable only within an analytical framework.

Almost at the same time, Harry Harding described that American experts and scholars are always busy clearing up misconceptions about China. But in the attempt to get rid of misconceptions and misunderstandings, it creates new ones to take their place. What Harding said is that experts and scholars simply substitute today's truth for yesterday's myth, only to discover that today's reality becomes tomorrow's illusion. That is the reason why American experts and scholars attitudes toward China have undergone the

regular cycles of romanticism and cynicism, of idealization and distain. The assessments of China are thus likely to end up with that same phenomena as described in very different terms or explanation than before depending on the different paradigms and conceptions.

In the 90's, Denny Roy asserted that although many experts and scholars intend to argue for or against the view that China is a threat, neither "for" nor against can prove that their assertions are the most appropriate and analytically acceptable view. The reason is that China's intentions are perhaps more important than its capabilities. What he tried to point out is that whether or not the intentions of big powers matter is indeed a key theoretical issue. It was thus insisted that "for" and "against" arguments are likely to result in misconception and a particular paradigm.

By observing both many unexpected political and economic changes in China and speculation over the future shape and stability of the Chinese polity are being mounted.¹²⁾ It is said that if any expert and scholar wants to look into China's changes, it is better to examine a number of salient constraints as such socio-economic forces, political conditions and environmental factors that are likely to affect the future plausibility of each change. Otherwise, any attempt to diagnose China's ever changing politics and economics will result in failures of predicting the future direction and providing reasonable explanations. Baum then indicated that since China's changes in politics and economics are so complex and open-ended, many scenarios to assess China's changes are possible. These scenarios can be divided into the three categories; more likely, less likely and least likely.

Wing Thyee Woo also pointed out that in an ongoing academic debate in Chinese economic transition, there are two sides of arguments. It is said that one side holds that the remarkable performance of China's economic transition justifies a unique way of economic reform and a particular set of non-capitalist institutions while the other side believes that the remarkable performance is a reflection of China's institutional convergence with the mainstream capitalist countries in the world.

In the 2000's, Phillip C. Saunders disclosed the fact that both sides of America and China have hundreds of analysts who interpret America or Chinese policy for their audiences.

Most of them are said to be rather theoretical and descriptive taking into account a broader range of socio-economic and political views and realities. Sino-U.S relations have therefore historically suffered from mutual misperceptions, cultural differences and unrealistic expectations. Saunders then asserted that although American analysts typically emphasize the cooperative aspects and play down the negative side-effects of inter-dependence, Chinese analysts are keenly aware of the political vulnerabilities which inter-dependence creates.

12) Baum, Richard, "China after Deng: Ten Scenarios in Search of Reality," *The China Quarterly*, no.145, March 1996, pp.153-175.

Following Wing Thye Woo's critique, Jeffrey D. Sachs and Wing Thye Woo tried again to expose the issue debated between the experimentalist school and convergence school which hold the opposite viewpoints regarding China's remarkable economic performance. They aimed to point out that the convergence school is far better than the experimentalist school in explaining China's rapid economic growth. The reason was that unlike the Soviet Union and Eastern European countries, China has implemented drastically different marketization politics which are more oriented to the capitalist model. Sachs and Woo then argued that even though they have shown the theoretical mechanism of China's rapid growth, neither Naughton B. nor Lin et al spelled out explicitly the mechanism through which a partial reform was necessarily dare to-improving or output enhancing.¹³⁾

In 2005, Jonathan Story indicated that China's transition was composed of four distinct but simultaneous processes and not synchronized in their dynamics. There are therefore many things one can and cannot say with certainty about China's change. What Story said is that since China is a vast and varied country, it produces enough diversity to provide supporting evidence for a particular view or hypothesis. In order to have a sensible and reasonable argument about China's transition and economic growth, some necessary conditions are therefore required to be satisfied. The first condition is that the glue binding the Chinese Communist Party (CCP) to the people has to be able to hold through the trials and tribulations that lie ahead. The second necessary condition is that the CCP has to ride out the paradox of its situations whereby it can neither defend an indefensible status quo, nor proceed with gradualism as a formula for policy in China which is changing ever faster. The third condition is to pursue pragmatic policies.

Recently, some of experts and scholars have attempted to make use of statistical data in their studies of China's socio-economics and politics. The purpose was that they were very anxious to have decisive evidence so as to support their assumptions or hypothesis. Making use of statistical data is thus greatly increasing and also experts and scholars do prefer to utilize quantitative methods such as mathematical model and regression.

In the late 90's, Daniel C. Lynch attempted to make use of primary raw data to check how fast TV is being disseminated in China and how it is different between the urban and rural area. Its method was a simple manipulation of data to find the trend of dissemination over a couple of decades. In the early 2000's, Bjorn Gustafsson and Wei Zhong attempted also to make use of a mathematical model and microdata obtained from surveys so as to find how Chinese poverty had changed. "The China Quarterly, no. 164, Dec. 2000, pp. 983-1006. They then claimed that the survey data would explain the reality of China's current situation in poverty. The analytical method used was the utilization of percentage change between the

13) Naughton, B., *Growing out of the Plan: Chinese Economic Reform, 1978-1993*, Cambridge University Press, 1995. Lin et al, *op. cit*

periods. Pak K. Lee was not much different from Gustafson and Zhong's method in analyzing the effects of the tax-assignment system on strengthening state capacity.

Recently, Xuemei Bai, Zhicheng Liang and Yanrui Wu have tried to make use of a basic growth model and then to test it by statistical regression using simple time-series and cross-section data in order to discover some evidence for industrial productivity convergence and the relationship among financial development, market deregulation and growth.

So far, the examination of why and how the arguments of China's threat, stability, convergence and challenge have arisen as the hot issues among experts and scholars has disclosed that due to the vastness and complexity of China's politics, socio-economics, and various paradigms, studies of China could not but be conflicted and then divided into extremely opposite viewpoints among themselves as an asymmetry. This asymmetry apparently makes it very difficult to compare them on the theoretical or reasonable basis. This sort of difficulty drives ordinary people, even experts and scholars, into the paradox or confusion in understanding China's real politics and socio-economics. The confusion is likely to create such a paradox as the "Neither this nor that" in searching for the real China.¹⁴⁾

Very recently, Philip Kitcher raised the problem of the Under determination of Theory by Evidence in the book, *Science, Truth and Democracy*. What he said is that there are alternative theories which are not simply equally well supported by any evidence we have but which would continue to be equally well supported by given any amount of evidence we could ever collect. To debate the China threat, stability, growth, convergence and challenge may thus fall into the problem of the Under determination of theory.

It also reveals that the empirical studies of China are making use of survey, interview, the short period of time-series and narrow cross-section data. The problem with these studies is then arising from its insufficient explanatory power and capacity.

The insufficiency of explanatory power is likely to create a pitfall for experts and scholars who have not enough knowledge of empirical studies to cause misunderstanding and misjudgement about China's real politics and socio-economics.

IV. Capitalist Spirit and Statist Spirit

Most of the experts and scholars engaged in the studies of China's politics and socio-economics have agreed that the reform initiated by China's political leaders began to build the foundation of economic

14) Raby, Geoff, "The Neither This Nor That Economy." *Growth With Miracles*, ed. Ross Garnaut & Yiping Huang, Oxford University Press, 2001, pp.19-35

growth. Its gradual approach has provided the real base of rapid growth, which is driven by economic necessity and responded to the reform-induced changes in different parts of the socio-economic system. China could thus maintain forward momentum in economic reform and growth. The sum of gradual change has been the systemic transformation of the entire economy. However, it has not become a near-capitalist economy as many experts and scholars presumed it would be in the 80's. Instead, China has slowly become something of a near-market and collectivist system which is capable of sustaining historically and internally very high rates of growth.

Although the debate of the China threat in international relations had already been triggered in the 80's, accession to the WTO, the rapid economic growth and national stirred by both the Chinese leaders and the people have made the debates of China threat, stability, challenge and convergence to capitalism more ferocious. Presently, most experts and scholars are very concerned about whether or not and how long its rapid economic growth will continue in the future. Its remarkable economic performance has so far made China a superpower in world politics and economics.

Recently, Peter Hugh Nolan asserted that the continuity of high economic growth will depend on a number of the following conditions: First, how successfully China will manage and control inequality and poverty. Second, how smartly Chinese firms will face severe challenges from the outside global competitive firms. Third, how successfully China will manage and control the intense pressure of a huge and growing population and environmental destruction incurred by explosive industrial growth. Fourth, how greatly China can improve and enhance the capability and role of the state. Fifth, how successfully China can keep a balanced relationship with the U.S. Finally, how successfully China enhance corporate governance.¹⁵⁾

He further indicated that so far China has enjoyed with the speed effect which usually occurs when an industrializing late comer closes the per capita GDP gap by achieving higher income growth, which happened experienced in the four "dragons"-South Korea, Taiwan, Singapore and Hong Kong. Now China is experiencing the speed effect resulting from quicker change than that of advanced countries along with the rapid increase of participation in international trade. The effects of institutional changes also could be included to explain China's economic growth, which plays an important role in the allocation of resources.

Hu Angang then expects that the effects that happened in China's economic growth will occur again in the future with the benefit of the past. He further suggests that if China wants to sustain the high growth rate in the future, it has to expand and widen the technological catch-up effects which reduce the cost of innovation shortening the time for new products to enter the market.

Unlike Peter Hugh Nolan's assertion and Hu Angang's argument which are apparently based on the orthodox growth and development models, Xiaoying Wang has emphasized the fact that the commodification

15) Hu, Angang, "The Source of China's Economic Growth," *The China Business Review Sept-Oct. 2005*, pp. 28-33.

of labor, privatization of the means of production and the rise of an entrepreneurial class are actively proceeded during the period of rapid growth and these socio-economic changes have hastened the collapse of the Communist moral order of the Maoist era.

However, there is a new moral order which has arisen to fill the gap left by the demise of the old order except nationalism and statism. Wang insists that the lack of a new type of moral or person whose values and motivations can help sustain China's emerging capitalist society might block the continual economic growth.

Tu-Shan Wu also claims that no one can deny the fact that China's institution has played the main role in the rapid economic growth. However, he says that the institutional approach can't be sufficient enough to warrant the high growth. It was indicated that culture is ready to explain complementarily the part of economic growth which the institutional approach can't do.

Within the context of these assertions and arguments, it can be said that the neoclassical growth model and the institutional approach to China's economic growth are becoming the necessary conditions but not the sufficient condition. Instead, the culture and capitalist value or norm are to play the role as the sufficient condition in the relationship of symmetry or complementarity. The question is then what the neoclassical growth model and capitalist value or norm mean in a capitalist socio-culture.

Recently, Palle Anderson and David Gruen have stressed that a stable macroeconomic framework and policy are necessary although they are not sufficient enough for sustainable economic growth.

Fisher, Stanley, *The Role of Macroeconomic Factors in Growth*, Working Paper 4.565, National Bureau of Economic Research, December 1993. Its five features are a low and predictable inflation rate, an appropriate real interest rate, a stable and sustainable fiscal policy, a competitive and predictable real exchange rate and a good balance of payments. Scott Stern et al and Paul M. Romer emphasized that technological innovation or change and R&D productivity are the most important factors and play a central role in the process of long-run economic growth. In contrast, Michael E. Porter and Alwyn Young have insisted that the competitive advantages of industry and product and total factor productivity are not only contributing to real economic growth but also increasing its potentiality.

As to the culture and capitalist value or norm, Robert J. Barro and Rachel M. McCleary have recently indicated that economic development does not have a single dimension but rather involves regular patterns of change in a number of economic, social and political variables. Development does feature not only rising per capita income but also higher levels of education, urbanization, life expectancy and lower levels of fertility. The effect of economic development on religiosity likely depends on the specific aspect of development for example, more education means something different from lower fertility. Barro and Mc Cleary particularly emphasized that despite of that truth most economists and researchers have paid little attention to religion

and other measures of culture as determinants of economic growth. Their conjecture was then that high religious belief stimulates growth because they help to sustain aspects of individual behavior that enhance productivity.

Xiaoying Wang has also tried to introduce a type of person who is conducive to the capitalist mode of production, which was called the bourgeois subject. This subject is assumed to be a moral category referring to an overall personality structure that could reflect what Max Weber called the spirit of capitalism.

The second question is whether or not the neoclassical growth model and capitalist spirit really have any relevance and can be adoptable to China's economics and society which aim to sustain the continual high economic growth. Before answering, it is better to look into the long history of Chinese Confucism, Chinese communist ideology, and nationalism and to examine whether or not these religious and socio-political elements have already established a feasible foundation for the adoption or acceptance of the Western value or norm and the scientific methodology.¹⁶⁾

What he said is that although Max Weber emphasized such ethics as industry and frugality in the spirit of capitalism, China has rather concentrated on the later one. He also quoted that what Max Weber had complained about the dishonest and distrust of the Chinese businessmen in his book, "Religion of China" and intended to indicate the absence of an inward core and central, autonomous value position in Chinese businessmen.

Recently, Xiaoying Wang in his explanation of the bourgeois subject within the context of Max Weber's capitalist spirit and its comparison with the post-Communist personality has tried to indicate that if a society is developing a capitalist or proto-capitalist market economy but is not effectively producing the bourgeois subject at the same time, it will face problems both in maintaining its capitalist economic order and in engendering social forces that could effectively challenge or reform capitalism. Wang believed that China is caught in the situation which undergoes a capitalist revolution without the bourgeois subject. He also indicated that the post-communist personality is characterized by hedonism without individualism. In this respect, the post-communist personality has no distance from the desire for wealth and pleasure and hence no ability to reflect on them. The post-communist personality is therefore thoroughly at the mercy of the stimuli thrown up by the market reform.

Upon examining Yu's explanation and Wang's indication, it can be concluded that the neoclassical growth mode and capitalist spirit are very relevant to China's economic growth but China is too premature or backward to understand and to reflect analytical philosophy, philosophy of science, philosophy of economics and ethics in the reforms of politics and economics. Also, it has to be pointed out that Yu's explanation

16) Barro, Robert J. & Rachel M. Mc Cleary, "Religion & Economic Growth", *American Sociological Review*, vol.68, 2003, pp. 760-781

and Wang's indication failed to mention about the philosophy of economics, analytical economics and economic ethics. Bourgeois or capitalist subjects are required not only to have such economic ethics as economic justice and rationality which are crucial for the balanced growth and harmony in society but also to possess an analytical mind and capability. Unless capitalist subjects have or possess a philosophy of economics, analytical economics and economic ethics, it is very obvious that they can't make use of the neoclassical model and the capitalist spirit which can drive the whole socio-economic system and the equilibrium and harmony by playing a role of invisible hand.

As a result, philosophy of economics, analytical economics, and economics are immediately needed for China who is at the moment very anxious to sustain the stable and continuity of rapid economic growth. But unfortunately China does not even recognize the reason why they need to adopt these economic concepts and methods. At the present, no alternative approach therefore exists for China but to take the gradual approach with a strong state intervention in the market. This approach and intervention will eventually force China to encounter continuously with such socio-economic and political problems as inequality, corruption, distortion in resource allocation, riots and unemployment as the NIC's currently do. In the worse case, China will fall into the vicious circle of the frequent fall and rise of the regime, which will drive China's economics and politics into disaster.

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중국의 경제와 정치에 대한 분석과 새로운 비전에 관한 연구

국문요약

최근 몇 년 동안 많은 경제전문가와 학자들은 중국의 빠른 경제성장 출현이 세계의 정치와 경제에 중요한 이슈가 될 것이라고 예견해 왔다. 중국의 급속한 성장을 주요한 문제로 받아들이면서 급성장에 기여한 요인들과 향후 중국의 경제성장 정책방향에 대하여 주의 깊게 분석하여 연구하기 시작하였다. 이것은 놀라운 일이 아니라는 것을 이 논문을 통해서 이해하게 될 것이다. 경제성장 요인으로는 해외직접투자 (FDI), 수출 그리고 경제개혁이 가장 중요한 요인으로 밝혀졌으며, FDI는 자동차와 운수장비, 전력장치와 가전분야에 집중되었으며 이는 경제 성장뿐만 아니라 선진국과의 격차 해소에 필수적인 기술집약적인 분야에 집중 투자 함으로서 세계 수출입 시장으로의 원동력이 되고 수출입의 증가로 인해 많은 외환의 비축을 촉진시키게 되었다. 본고에서는 다음의 내용을 소재로 중국경제 정책의 방향을 중점 연구하였다.

1. 중국의 경제성장과 발전의 중요한원동력이 무엇이며 향후에도 과거와 같은 경제성장 이 지속 될 것이며 또 얼마동안 지속될 것이나?
2. 중국의 경제 성장이 원자재의 품귀와 가격상승으로 원자재 시장을 교란시켜 왔는데 과잉 외환보유를 해소하기 위해 정부 주도의 원유 및 전략물자와 기술도입의 확대 등.
3. 중국 경제에서 과다 외환보유로 인한 리스크 증가에도 불구하고 민간부분의 자율외환시장 기능 확대와 향후에도 정부주도형 외환관리와 경제정책 시스템을 유지 등.