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The Effects of Economic Growth On the Power Dynamics of China

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Abstract

The aim of this work is to analyze the impact of the economic growth seen between the late 1970s and the present time in the power dynamics of the People's Republic of China. Our core hypothesis is that the legitimacy of the social contract upon which the rule of the Communist Party is now based could ultimately be challenged by those developments. Each of its dimensions has an associated section that focuses on a different perspective: we start dissecting the role of prosperity on the evolution of the incumbent political class and its policy-making; then, we cross the boundaries of the Party-State to see its effect on the views and practices of the Chinese people; finally, we explore the sustainability of the growth model in place under the light shed by its precedents and the mentioned processes.

Key words: ruling bargains, power balancing, rent-seeking, perverse incentives, systems of beliefs

Resumen

Este trabajo busca analizar el impacto del crecimiento económico desarrollado de finales de los 1970 a la actualidad en las dinámicas de poder de la República Popular de China. Nuestra hipótesis central es que la legitimidad del contrato social que sustenta al Partido Comunista en el poder podría verse amenazada por las consecuencias de dicho proceso. A cada dimensión de dicha conjetura se le ha dedicado un apartado temático propio: empezamos diseccionando el papel de la prosperidad en la evolución de la clase política dominante y su *modus operandi*; después, miramos más allá del Partido-Estado para ver su huella en los valores y prácticas del pueblo chino; por último, estudiaremos la sostenibilidad de su modelo de desarrollo a la luz de sus precedentes y de tales procesos.

Palabras clave: contrato social, equilibrio de poder, clientelismo, incentivos perversos, sistemas de creencias

“[The bourgeoisie] compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilization into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.”

Marx and Engels, *The Communist Manifesto*, 1848

Acronyms

CCP: Communist Party of China

GDP: Gross Domestic Product (market value of the finished production of a country in goods and services in a specific time period, usually a natural year).

GDPpc: Gross Domestic Product per capita (GDP divided by the population of a country).

BRI: Belt and Road Initiative (also known as OBOR, or One Belt, One Road, is a foreign policy framework allegedly aiming to spread Chinese influence over the entire Eurasian continent with infrastructure projects and the so-called ‘debt diplomacy’).

PPP: Purchasing Power Parity (estimate with the aim of countering monetary and price distortions when comparing figures of different economies and currencies).

SEZ: Special Economic Zone (area whose regulatory environment differs from the rest of the country, aiming to boost foreign and domestic investment, employment, etc.).

SITG: *Skin in the Game*, used in reference to the notion laid down by N.N. Taleb that refers to the connection between an agent and the consequences of his decisions.

SOE: State-Owned Enterprises.

USD: United States Dollar (when regarded as “current”),

USA/US: United States of America

WB: World Bank

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1. Introduction

1.1 Purpose

This piece consists in a study of the Chinese political system and its prospects, framed in the context of the exhaustion of the development model it has pursued in the four decades after the reforms promoted by Deng Xiaoping and his successors since the late 1970s. The main interest of the topic relies on the political and economic consequences of the kind of structural imbalances that might be identified here, given the importance of China for the international system on every level, especially economic and diplomatically-wise.

The timespan choice answers to a straightforward reasoning: the Dengist reforms have unleashed the largest process of wealth creation ever recorded. Never did so many people enrich themselves so much in such a short period of time. Any political consequences of economic growth for power balancing as a whole, and for autocratic bargains specifically, may expect to be magnified given the scope and pace of development of the Chinese case.

The agent choice follows a similar rationale. The Communist Party of China (CCP, henceforth) lays at the core of this work, for it remains the hegemonic actor in the Chinese political arena. In fact, at the beginning of our timeframe, during the Maoist twilight, its control over the Chinese people and economy was not just undisputed, but ubiquitous. Section 2.1 is therefore dedicated to the study of the impact of economic growth on it, through two dimensions: the interests of its members and their impact on policy-making.

While mundane people may hold a reduced power share at times (more so in autocracies), numerically speaking, most economic and political agents often fall into such category. Besides, economics has changed dramatically the China that lies outside the Party as well, creating a mighty private sector and a strong civil society that may have a crucial role in contesting the legitimacy of the Communist Party if its ruling bargain is proven obsolete. Section 2.2, thus, is focused on the evolution of the Chinese people and their value system, and its links with the organizational malaise inside the Party-State and development itself.

A successful track record can be both a blessing and a curse, for the growth expectations it lays down -both within and beyond the CCP- may become increasingly harder to meet. The sustainability of said outlooks is bound to be a key component of the prospects of the legitimacy of the Dengist social contract, and hence Section 2.3 accounts for it in detail. It does so by considering the growth-hindering effects of the previously studied trends under the light shed by the limits of the growth model in place and the odds of a reform.

1.2 Research questions

The central question to answer with this work is what the prospects of the CCP ruling are under the light of the several changes unleashed by economic growth. Given the multiple dimensions involved in said development, the analysis will be divided in three sections, allowing us to test our core hypothesis: that the various effects of economic growth will indeed challenge the social contract upon which the legitimacy of the *statu quo* is built.

In Section 2.1, we evaluate the insights that led us to suspect that an oligarchization of the Communist Party-State may be underway (see Section 1.4.1) combining two lens: first, we study whether the impact of development on Chinese officials fits our mentioned framework, to then test the predictions that we draw from it with an actual case study. Using a class perspective, we will analyze the political consequences of the rising weight of the urban bourgeoisie and liberal top incomers within the CCP ranks, as well as the meaning of the growing monetary premium that some leverage from said membership. Since we aim to connect our findings with Section 2.3, we also explore the policy-making consequences of such development, which may as well provide further empirical support to our framework. To this effect, we thoroughly study the Belt and Road Initiative (BRI).

In Section 2.2, the Chinese people and their values are examined through the lens of the actual impact that economic growth has had on them, and its potential consequences for the future maintenance of the growth expectations for which, again, Section 2.3 accounts. For instance, development could go hand-in-hand with changes in some moral practices which could, eventually, undermine the very economic growth that induced said change. While that could be the case with the stark demographic outlook faced by the government, similar prosperity-related shifts in popular views may also challenge its own legitimacy. Both elements -personal practices and political opinions- are accounted for in our study.

In Section 2.3, we not only review the growth-hindering dimension of the aforementioned trends, but also enrich it with the context of the exhaustion of the growth model in place. We aim to study its self-limiting nature throughout a both theoretical and comparative account of it, looking at its predecessors to see if history is bound to repeat itself in China. Figuring out whether or not that may be expected to be the case will require the framework proposed in Section 1.4.3 to be tested with the empirical evidence. However, that inquiry ultimately relies on another pillar: the odds of a reform. On that regard, we also analyze the likelihood of a paradigm shift, under the light shed by our findings in the Section 2.1.

Contemplating the findings of those three sections, the piece ends with a conclusive part that surveys the broader diagnosis drawn from them. In the foreseeable future, China will face political challenges of different kinds, many of which will be rooted in economics. The economic revolution experienced by the country in recent times is yet to result in a political one, arguably due to the appeasing effect of a successful maintenance of growth. It has already reshaped the lives and values of the Chinese people and their elites, though, and, while the effects of those changes on policy-making are already notable, whether their impact could lead to the contestation of the current social contract is yet to be seen.

All in all, the core question of this work is whether, and how, the quick economic growth of China will shape the prospects of its political *statu quo*. Our thesis is that it will, indeed: economic growth has already changed its political class and their policy-making process, noticeably reshaped the popular compliance with the views and practices upon which the legitimacy of the regime was built, and exhausted growth itself in a self-limiting fashion. Besides, the odds of a structural reform are severely challenged by the elite competition dynamics that we analyze in Section 2.3 throughout the evidence reviewed in Section 2.1.

1.3 Methodology

The methodology at the core of this paper is that of the case study. More precisely, it will be tackled within the broader context of power balancing, the incorporation in autocratic political systems and the socio-cultural consequences of a rapid economic development.

Within a qualitative approach, the political and historical implications of the matter are analyzed through some of the different lens offered by social sciences. Supporting it there are both primary as well as several secondary sources. Regarding the former, it is worth highlighting the crucial role for the realization of this work played by databases on demographics (such as the Chinese Censuses and the World Bank estimates), macro and microeconomic figures (like the Chinese Household Income Project ones, among others) and some opinion polls (for example, the one conducted by the Asian Barometer Survey).

Similarly, the piece relies on secondary sources in the form of institutional studies and reports, essays and academic papers. Chinese politics and economics have unsurprisingly drawn a quite remarkable amount of scholar interest in recent times, resulting in a rich literature that will be furthermore combined with findings and conceptual tools borrowed from other fields, such as Game Theory (mainly the catch-22) and Political Science (from ruling bargains, incorporation or the Collective Action Problem to SITG or antifragility).

1.4 Theoretical framework

Once stated our question and core hypothesis, we may explain how we plan on answering. Given the multidisciplinary nature of the discussed topic, a variety of approaches will be required in order to account for it comprehensively. The goal of this subsection, therefore, is to introduce those which will be of the greatest importance for our subsequent analysis, which we divide in three after the structure of Section 2: Politics, Society and Economics. First, we present the prism through which we aim to scrutinize the Party-State of China, whose predictive validity will be tested against the available evidence in our Section 2.1. Then, we discuss the grounds on which we will assess the key significance of the public opinion in the Chinese political arena, before researching it empirically in Section 2.2. Lastly, we shed light on the confines of the growth model in place and the odds of reform, whose importance we discussed alongside the aforementioned trends in our Section 2.3.

The foundational insight behind this work is that, while bumps in the road that are both predictable and avoidable are of little importance (for an outsider could hardly do a better job at predicting them or at figuring out the best way to avoid them than the CCP itself), there may be bumps out there that are predictable (or else it would make little sense to try to track them) *yet* unavoidable (or else any harm they may entail would be, well, avoided). Making a rhetorical use of the Game Theory notion of catch-22, we may present it as a situation that subjects an agent to contradictory limitations that prevent its resolution, i.e.:

“Without experience, I cannot get a job. Which is the only source of experience”.

Going back to the aforementioned hypothesis in regard to our research question (what are the prospects of the Chinese *statu quo* given the changes unleashed by economic growth), we might phrase it in terms of the economic miracle that has reshaped China since 1978:

“Without growth, the CCP lacks legitimacy. Which is undermined by growth”.

In short, economic growth could have been, at the same time, a major source of legitimacy and the root of societal and organizational changes that are challenging said legitimacy. That is, of course, grounded on the risk of failing to meet the very expectations it generates (for which we also account in Section 2.3). Although it can sound absurd at first, ensuring prosperity in the short-term, just like Dengist reformers arguably did, may eventually pose existential threats in the longer run. Our aim in this section is to introduce the conceptual tools that we use to identify growth-based threats of that specific kind: those that cannot be avoided (even when they are predictable) and difficult meeting growth expectations.

1.4.1 Political analysis

For the current Chinese political system has an authoritarian nature, scholarly research on autocracies plays a big role in our study, providing a theoretical body to test empirically. While we may not mention them explicitly at all times, some of its key notions laying at the core of our reasoning are: ruling bargains (tacit or formal arrangements between rulers and supporters that legitimize the *statu quo*), incorporation (inclusion of an agent or group into said bargains, usually aiming to gather support) or Collective Action Problem (agents with common interests fail to cooperate for their circumstances discourage joint action). In our hypothesis, growth sustains the 1978 ruling bargain *and* poses key challenges to it. Section 2.1 aims to determine whether it has shaped the incorporation process in a manner that could alienate neglected groups or undermine the ability of the Party-State to pursue its own political goals (like the Belt and Road Initiative case study allows us to illustrate). We suspect that to be the case, in accordance with an existing framework which assesses that the incumbents will always have the ability and will to skew them in their own favor:

“[The Iron Law of Oligarchy is a] sociological thesis according to which all organizations, including those committed to democratic ideals and practices, will inevitably succumb to rule by an elite few (an oligarchy)”.¹

Whether economic growth is indeed fostering the oligarchization of the Chinese officials is something we can trace back to the background and policy decisions of said individuals. If their incentives were leading them to skew the State action to favor personal interests, we should be seeing a secular de-ideologization of the Party, where opportunism and poor decisions may be expected to proliferate, eventually, at the expense of its own legitimacy.

Even if many agents shared a common, long-term interest in defending the *statu quo* from such malaise, they may fail to jointly discourage or prosecute an escalating short-termism. Indeed, the Collective Action Problem could act in favor of such a trend, for the cohesive and influential groups may have the ability and will to overcome their cooperation issues and capture key political arenas to pursue their own interests, while the disperse and less influential classes would be increasingly excluded from power and the privileges it yields. In Section 2.1, we evaluate whether that is the case by analyzing the social composition of the CCP membership and the income premiums it yields to its members depending on their social background, as well as the case study of the Belt and Road Initiative (BRI).

¹ Sluyter-Beltrão (2017), referring to the original thesis of Michels (1911).

A key, yet tacit, role in our logic will be played by the notions laid down by N.N. Taleb.² His concept of “antifragility” goes a step further than the idea of “resilience/robustness”, which refers to what is suited to resist distress, by defining what rather *thrives* in distress. While the Chinese *statu quo* has certainly proven to be resilient by maintaining itself in place during the four most economically transformative decades in history for any nation, it is yet to be seen whether those changes have reinforced the established order, proving it *antifragile*, or rather weakened it. This expands the point made in the prior paragraph, for *antifragile* groups may be expected to eventually overthrow the merely robust ones. That is: those who have thriven under economic growth, like tycoons and middle classes, may be expected to take over those who have only endured it, like the CCP clerical ranks (just like, for what that precedent is worth, happened with the French bourgeoisie in 1789).

Finally, we borrow his conceptualization of “skin in the game” (SITG), which we regard as a crucial part of the oligarchization process depicted above.³ It is worth noting the lack of naïve assumptions of incompetence or ignorance in our reasoning: we aim to identify a secular trend rooted in economic growth that could progressively prompt the Iron Law of Oligarchy to take control of the CCP. While the potential opposition to such a process has already been addressed through the lens of both antifragility and the Collective Action Problem, we shall make another remark regarding the link amid actors and their actions. SITG refers as a type of link between said parts that entails some kind of risk, for instance, the risk of financial harm associated to a decision regarding personal finance. However, sometimes that link is missing, which dissociates an agent from the risks entailed by his actions, what Taleb regards as “lack of skin in the game”. That is not only key to grasp the perverse incentives of *antifragile* outsiders to capture the CCP and de-ideologize its actions in their own favor (distributing the harm of their actions among all the Chinese while profiting privately from them), but also the *herd effect* said process may be igniting. Individually, all members of excluded groups may be facing the more or less coercive choice of helplessly trying to organize a collective interest against oligarchization (notice that tracking dissent is much easier than coordinating it) or allowing the loot (if not joining it). This furthers the difficulty of joint action, which may suggest that such overthrowing would be most effective if focused on occupying top roles: most officials may be expected to follow suit, for they are individually dissociated from the collective risk of doing so.

² Taleb (2016).

³ Ibid.

1.4.2 Social analysis

Even though mundane people are only given so much room for political incorporation in China, they remain a crucial component of any comprehensive account of the prospects of a social contract. Here, we introduce the complimentary lens through which we study how economic growth has reshaped them, in terms of their political role and moral values.

On the one hand, the successful track record of the CCP pursuing economic growth makes hard to determine whether social unrest is being appeased by prosperity or rather missing, which is why blindly assuming the former to be the case to then predict a boom in dissent after a slowdown can be misleading. However, the strategy of targeted incorporation in place can give us hints about the effects of economic growth on Chinese power dynamics. For that end, we leverage the scholarly work on the proxies of the likelihood of political liberalization in autocratic regimes, of which one has a notorious link with the Chinese model of growth: the financial autonomy of the civil society from the State (for autocrats can exert a remarkably tighter dominance over those who depend economically on them).⁴ If that theory were applicable to the case of China, we would expect to see greater efforts to incorporate an individual the less he relies on the Chinese government (and vice versa). We test such insight in Section 2.1, by looking at the evolution of the CCP membership.

On the other hand, it seems self-evident that openly anti-social behaviors, like terrorism, undermine the stability of any political system. And, just like the Chinese *statu quo* must have a list of *don'ts*, there has to be a parallel list of *dos*. We aim to map some of those views and practices that the CCP ruling bargain needs its people to widely comply with, to then evaluate how economic growth has impacted said compliance in the last decades. Within them, we distinguish two different groups: political views and personal practices. Since our interest is on the matters that are of certain relevance for our research question, throughout Section 2.2 we will put our emphasis on whether economic development has:

1. Given rise to certain political views that challenge the *statu quo* (we would expect to see, for instance, a correlation between educational attainment and liberalism);
2. Prompted personal practices that may undermine growth itself in the longer run (most notably, an abrupt demographic transition shaped by radical interventions in the private sphere by the CCP government -including a forced rural exodus and the One-Child Policy; as well as the secular trend downwards of the savings rate).

⁴ Kamrava (2007: 197-206).

1.4.3 Economic analysis

Some of the above trends, if true, could have a direct impact on the CCP rule legitimacy (namely, a swing in political views), whereas others may affect it in a rather indirect way by challenging growth expectations in place (e.g., oligarchization and certain practices). However, all of them develop a more worrying dimension when further contextualized with two additional ideas: (1) the self-limiting nature of the Chinese growth model leads to a catch-22 crossroad; and (2) said paradox is grounded in growth-based elite dynamics. Our goal in this subsection will be to introduce the theoretical frameworks that led us to those insights, to then test them both throughout Section 2.3 against the existing evidence.

Regarding the limits that the Chinese growth model may eventually impose upon itself, we leverage the notion of “*late mover advantage*” in relation to economic backwardness.⁵ Within that prism, innovation is seen as a both time, capital *and* labor-intensive endeavor, given its roots on trial-and-error iterations. In simpler words: an extremely costly process. That is a far cry from depicting it as a somehow ‘socially unprofitable’ activity, of course, but gives us a grasp of the logic behind the popularized belief that “developed countries have it easier”. While leading the race to push our global technological frontier further is undoubtedly beneficial, the Chinese miracle is not about first-movers, but rather laggards.

The Dengist model of development leapfrogged the unaffordable process of innovation by leveraging the “*low-hanging fruit*”, whose development cost was paid by first-movers. China channeled those backwardness-leveraging efforts through a typical investment-led approach (which necessarily relies largely on the infrastructure sector: see Section 2.1.1). However, by definition, climbing up the technological ladder makes the ‘free fruit’ ever scarcer: one cannot -sustainably- outsource innovation *and* catch-up with its forerunners. In lack of a paradigm-shifting reform of the Chinese development model, we may expect it to follow its predecessors into a progressive stagnation as investment returns diminish:

“[The Middle-Income Trap is]⁶ a situation whereby a middle-income country is failing to transition to a high-income economy due to rising costs and declining competitiveness. Few countries successfully manage the transition”

In the first part of Section 2.3, therefore, we look at key indicators to test whether such stagnation is effectively underway, thus testing this framework -that led us to predict so.

⁵ Gerschenkron (1962).

⁶ Nallari et al. (2011: 39).

Regarding the odds of said reform, furthermore, the second pillar of our approach remains far from optimistic. As per the framework developed throughout several academic papers of the early 2000s by Daron Acemoglu (MIT) and James A. Robinson (by then, Harvard), there is a tradeoff amid the likelihood of power maintenance and rents conditional on it. This “political replacement effect” is bound to play a key role in our study of the cohesion among CCP elites, for it gives us grounds to doubt the feasibility of said structural reform:

“Political elites will block beneficial economic and institutional change when they are afraid that these changes will destabilize the existing system and make it more likely that they will lose political power and future rents (...).”⁷

In our view, this framing fits perfectly the Chinese scenario. Not only because it accounts credibly for the likelihood of the Dengist pro-growth reforms that actually did take place, but also because it sheds light on their prospects. This is crucial for our topic, both because it can be tested (which we aim to in Section 2.3, building on our previous findings in the Section 2.1), and for it may allow to link growth-hindering dynamics with growth itself:

“The impact of political competition on blocking is non-monotonic (...). Both political elites that are subject to competition and those that are highly entrenched are likely to adopt new technologies [ones are likely to be replaced otherwise; the others face no downside doing so]. Instead, it is elites that are somewhat entrenched but still fear replacement that will block innovation.”⁸

Innovation increases the likelihood of replacement, eroding the “incumbency advantage” as in a Schumpeterian ‘creative destruction’: “new technologies often create turbulence”. Notice that such framing rejects a Coase Theorem type of logic to study policy decisions, explicitly denying the idea that all socially profitable investments will feasibly take place: there is no credible, *ex-post* way of compensating political elites who lose their power.⁹

Therefore, our approach to the always uncertain endeavor of political forecasting goes as follows. Throughout our study of the CCP membership and policy-making in Section 2.1, we aim to figure out if China could be transitioning from a context of firmly entrenched clerical elites to one of decreasing elite cohesion. Section 2.3 reviews its potential impact on the likelihood of a paradigm shift (and thus the sustainability of growth expectations).

⁷ Acemoglu and Robinson (2006: 115).

⁸ Ibid. (116).

⁹ Acemoglu (2003).

1.5 Related literature

This section comprehensively surveys and summarizes the major findings of the literature regarding our topic of study: the political consequences of the economic miracle of China. The work invested on the topic, along with the scholarly interest aroused, is notable, and a variety of approaches have helped to study it. The aim of this section will be to present the existing literature in an organized manner, making it as easy as possible to apprehend.

Firstly, Yang et al. (2019), whose work will be key for our later analysis (Section 2.1), highlight their inspiration in classic works by quoting Marx (1848) and Polanyi (1944). Whereas the consequences of the Chinese economic growth have been studied by many (the named authors mention Lin et al. (2010) as well as Brandt et al (2008), for instance), our interest on the study of proxies for political liberalization led us to political science. On that regard, the work of Kamrava (2007) embodies a rich example of the large interest aroused by the topic, though applied to the case of the Middle East (which, nonetheless, has crucial parallelisms with China, displaying an array of growth-hindering autocracies).

Indeed, his work on the effects of a lack of elite cohesion for the likelihood of democracy offered us a crucial insight on the importance of elite dynamics of state capacity, an idea that we develop in further detail in Section 2.3. Besides, given the close relationship of our topic with the broader field of interest group politics, it seems appropriate to credit the predecessors of the Acemoglu and Robinson (2006) framework in regard to the link between elite power dynamics and the likelihood of pro-growth reforms. As reviewed by the quoted authors themselves, their approach within developmental economics had been previously seen in the work of Nobel Prize S. Kuznets (1968). Other authors had further developed the idea too, like Olson (1982) and Mokyr (1990), whereas some scholars had formalized it as well, such as Krusell and RíosRull (1996) or Parente and Prescott (1999).

In regard to our analysis of the Chinese development model throughout a both theoretical and comparative account of it, as already mentioned, Gerschenkron (1962) remains key to grasp the logic behind our reasoning. While some gave the investment-led approach the benefit of the doubt (Nobel Prize P. Samuelson famous macroeconomics textbook, in 1970, included extrapolations that predicted the USSR to surpass the US GDP by 1984), others always remained fairly skeptical on that regard. W. Nutter (1957) faced all kinds of criticism when doing so, for example. More recent accounts such as Pettis (2017) have similarly enriched our understanding of the structural limits of said developmental model.

Our emphasis on the importance of popular compliance with certain practices, specifically when it comes to fertility and saving rates, has understandably gathered plenty of scholar interest. Among the most recent estimates, it is worth noting Li et al. (2017) as well as Golley et al. (2017), both of which predict these economically-induced societal changes to increasingly burden growth (bringing it as down as to just 3 percent, as per the former). Notice that our Figure 5, which highlights the Chinese inability to fully converge with the West in terms of GDP per capita, shows a trend of increasing divergence *even* with the official growth rates. It is worth noting that such gap could become barely surmountable if Chinese growth were to continue its slowdown as forecasted. Indeed, authors such as Chen et al. (2019) have estimated the official statistics to misrepresent the actual growth by 1.7 percentage points (and as much as 7 for savings rates) for the 2008-2016 period. Moreover, as per authors like Wang (2018), the demographic collapse of China, currently, may already be materially worse than the official data used in said ‘pessimistic’ estimates.

In terms of large datasets, we ought to give credit to Pan et al. (2018) without whose work our analysis of the evolution of the Chinese political arena would have been less nuanced, for it leverages one of the largest samples ever collected for almost any scholarly research. Similarly, given the massive scope of the Belt and Road Initiative, the academic studies that encompass hundreds of projects within said framework have been vital for our work. While the findings of Jones et al. (2019) regarding the corruption involved in their design are robust and consistent with other authors such as Bai et al. (2014), the sizeable sample of Hillman (2018) is what allows us to draw general conclusions on the overall initiative (whereas Ansar et al. (2016) further extended our scope to the entire infrastructure sector).

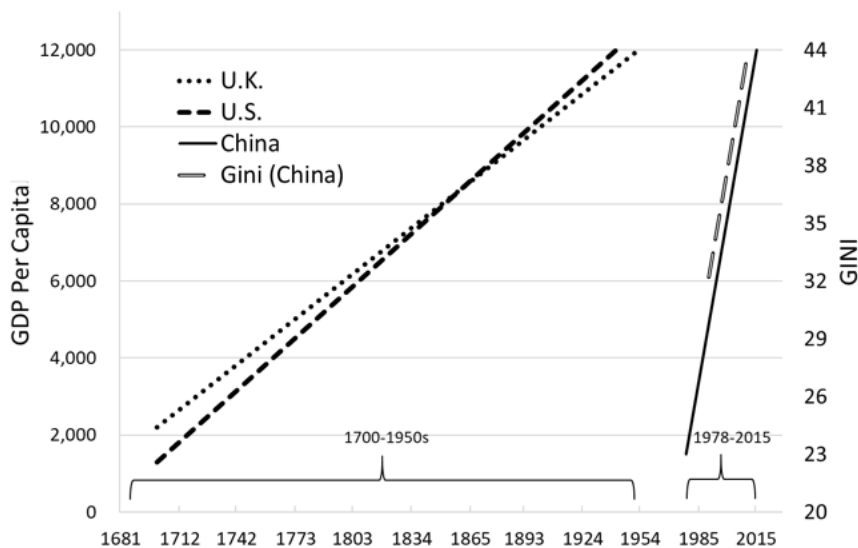
Some have claimed to be skeptical of the ability of the Chinese bourgeoisie to take over the Party-State, alluding to the deep roots in history of an asymmetric power distribution within elites that favored the Mandarin bureaucracy over the capitalist class (Fukuyama, 2011). Ascribing it to the Chinese edge over the West in terms of state-building precocity, Milanovic (2019: 113) similarly highlights the importance of “almost two millennia (...) knit of tradition and inertia”. Others have also pointed out how such takeover failed during the last Golden Age prior to the Dengist Revolution -that of the 10th-13th C. Song Dynasty (see Gernet (1962) and Arrighi (2007), for instance). However, there is an abyss between the scope of Medieval merchant classes and the new, worldwide-mighty super-tycoons: e.g., among the mega-capitalists that *already* have purchased themselves Congress seats, there are 153 who together are worth more than the US military budget (NY Times, 2018).

2. Analysis: Development and Power Dynamics in China

To recapitulate, our work is focused on the impact of economic growth on Chinese power dynamics. The hypothesis we aim to test throughout this analysis is that said development will indeed pose a variety of challenges to the political order established around the CCP. We structure our reasoning as follows. First, we will evaluate our insight regarding the oligarchization that may be underway within the Chinese Party-State with the available evidence, including a subsection focused on the case study of the Belt and Road Initiative. Then we take a step beyond the boundaries of the CCP, looking at the Chinese society as a whole to determine the impact of economic growth on their compliance with the values and practices upon which the legitimacy of the post-Dengist social contract has been built. Finally, we aim to contextualize the growth-hindering effect of said trends in the framing of a self-exhausted development model and the challenges faced by the required reforms.

Our foundational insight is not only that economic growth may be expected to have large political consequences, but that China in particular is bound to be a radical example of it. The late-Medieval European States lost their *auctoritas* as the unrepresented class, the capitalists, enriched themselves, thus widening the gap between their actual might and its official recognition. Some states managed to accommodate the newcomers in the existing *statu quo* -as the United Kingdom did after the Glorious Revolution of 1688. Those who failed faced a complete impugnation of the established institutions -as France did in 1789. In a proto-industrial world, growth rates gave a room for manoeuvre of several centuries, during which the once excluded from power were progressively incorporated. China, however, has undergone in four decades what took three centuries to unfold in the West:

Figure 1: Gini and GDP per capita in the UK, US and China (2015 PPP dollars, Yang et al. 2019)



2.1 Organizational malaise

The Chinese Party-State, however not as ubiquitous as it used to be, remains hegemonic. Interestingly, its nature has been far from static. Outside the ritual veneration of Marxist symbols and myths, the similarities between the CCP of 1949 and the one of 1969 or 1989 are not as abundant as one would expect in an autocracy which lacks external contenders. In fact, its metamorphoses had endogenous roots: the schism with Moscow, the Cultural Revolution and the apostasy of Deng Xiaoping were all events born out of its own ranks. Not surprisingly, as an organization monopolizes the public sphere, internal threats grow in importance relative to external ones (scarce by definition -at least domestically wise). In the largest despotic party in human history, “mind the apparatchiks” is the bottom line. The emphasis of this subsection, thus, is put on the impact of economic growth on the CCP *modus operandi* and testing our insight about the possible oligarchization underway.

To contextualize the organizational changes that are about to be scrutinized, it is worth looking at the broader societal trends underneath them. Specifically, China has recently experienced an unprecedented shift away from the realm of the CCP in terms of income. The private sector, virtually inexistent till the 1980s, now employs over 8 in 10 workers¹⁰. Urban elites -perhaps the single, most influential group- have followed suit: back in 1988, the Party-State accounted for almost four fifths of the urban top 1% wages. In 2013, it was less than a third. Nowadays, it well could be just over a quarter.¹¹ Economic growth has costed the CCP the privilege of ruling over people that depended on it financially. In fact, the financially independent individuals have invaded its own ranks, exposing, furthermore, a classist bias against the poor (who are, ironically, also more State-reliant): professionals and industrial workers had a similar share of all CCP members (26%; 30%), while the former accounted for just 18% of all urban population and the latter for 50%.¹² Thus, elite private labor is over-represented while manual workers are under-represented, which may serve as proof of the disproportional influence of the financially independent (who, as Section 1.4.1 predicted, are the *antifragile* ones: thriving with economic growth).

Notice that such asymmetry within the CCP strategy of targeted incorporation, by giving them a disproportional weight over less skilled peers, is consistent with our framework (Section 1.4.2), which pointed out that their autonomy in itself may threaten the *statu quo*.

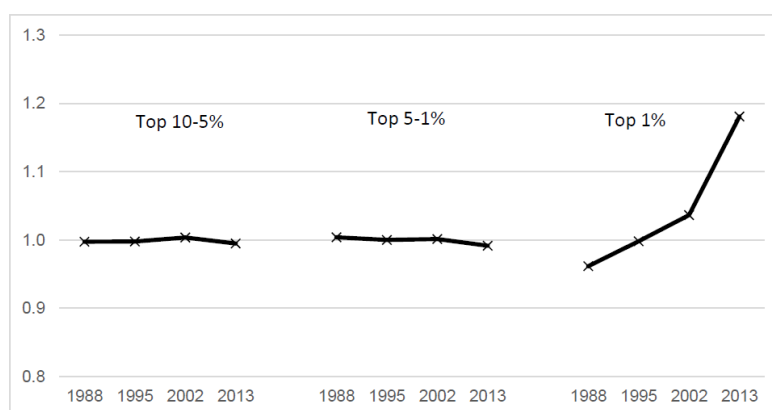
¹⁰ Zhang (2017).

¹¹ Yang et al. (2019: Table 3)

¹² Ibid.: Figure 13.

It is hard to overstate the impact of such shift in the bourgeoisie. Once a virtually inexistent social class, it has now over 110 million members and 20% of the seats in the Parliament (including 153 individuals who, combined, are worth more than the US military budget).¹³ Indeed, their class consciousness rings some bells. Among elite incomers, capitalists in particular are proving to be the “cohesive and influential” group we were looking for in the first place: their CCP membership results in an economic premium (an extra 34% to their income)¹⁴. Interestingly, such CCP premium is “insignificant” before controlling for social class, that is, capitalist CCP members manage to get it, but comparable officials with different backgrounds do not (even when they start off with similar incomes).¹⁵ While individual skills could partially explain said premium, that gap could be proof that business owners may be colluding to hoard such earnings while excluding other groups. That would confirm our insights about how those who thrive the most in economic growth (in terms of *antifragility*, elite professionals may win over manual workers, but capitalists would win over everyone else) may be expected to become increasingly influential and, if they prove better than other stakeholders at colluding successfully (as their membership premium gap with other groups suggests), progressively oligarchize of the entire CCP. Further research could explore whether that is linked to the sudden drop in elite CCP membership¹⁶, perhaps concentrated among the neglected, non-capitalist elites. (Yet another vindication of the quoted literature regarding the role of elite cohesion as a threat for the long-term endurance of autocratic regimes).¹⁷

Figure 2: Income of rich CCP members compared to the average elite income ¹⁸



¹³ New York Times (2018). Notice that Victor Shih, expert in Chinese politics at University of California, claims that “[those seats afford] a considerable protection for the wealthy (...) [outsider moguls are] very vulnerable to predatory action by a local government”. Demographic estimate based on Yang et al. (2019).

¹⁴ Yang et al. (2019: 47).

¹⁵ Ibid.: 46.

¹⁶ Ibid.: Figure 8.

¹⁷ Kamrava (2007: 202). See also Section 1.4.2.

¹⁸ Yang et al. (2019: Figure 9).

We can, hence, identify two clerical tendencies that may be expected to reshape the CCP: (1) the take over the party elite by opportunistic rent-seekers from the urban bourgeoisie, thriving with growth and able to collude, excluding other stakeholders from said rents; (2) the challenge of appeasing all the other social groups while economic growth boosts both their financial independence and the disproportional political weight that it carries. Both fit our framework (Section 1.4), especially when it comes to the need of adjusting the ruling bargain in place to the new economic reality and the possible conflict of interest between the incorporations needed for the long-term legitimacy of the Party-State and the immediate personal interests of its crony elites. That is, indeed, the “widely held” view: that the Party-State is meant to become “less ideological and more pragmatic” overtime.¹⁹

It is worth noting that those statements may constitute a catch-22. If rent-seekers hindered growth, for instance, by skewing policy in their own favor at the expense of state capacity, there would hardly be an outcome able to fit the demands of both -at least, not sustainably. That is, unless the appeasement of other stakeholders was completely detached from the financial harm that a growth slowdown would cause in their expected living standards. Indeed, that will allow us to further test our framework on oligarchization (Section 1.4.1): if we are right, short-termism and suboptimal policy decisions would be expected to follow, with opportunist incumbents seeking their own self-enrichment and empowering while trying to appease the discontent of civil society and the poorly-incorporated elites.

We regard the Belt and Road Initiative as a meaningful study case to do so, given that: (1) while corruption is much easier to track and quantify than vague notions of legitimacy, it still serves as a good proxy for it (in itself and due to its impact on growth expectations); (2) while the *modus operandi* of apparatchiks under a loose rule of law is always shady, the BRI provides deeper insights than usual, for more transparent partners are involved; and (3) not only its scope would require any corruption within it to be systemic to prosper, but, even if it did not, it would affect the infrastructure sector and the financial institutions that support it, which are the central pillars of the entire model of development of China.

2.1.1 Case study: the Belt and Road Initiative

The Belt and Road Initiative (BRI, henceforth), both signature project of Xi Jinping and the largest infrastructure enterprise in Chinese history, is the perfect laboratory to test our hypothesis: if the processes seen above were indeed signs of a trend of oligarchization,

¹⁹ (Yang et al., 2019: 46).

that should have left a footprint beyond the boundaries of the changing CCP membership. Inconveniently, Chinese statistics are often sanitized before being published, which made difficult in the past evaluating the results and practices of key policies. However, the BRI case is both key for the Party and relatively transparent, for foreign actors are involved, which may excuse certain mistakes, but provides a window to the CCP *modus operandi*.

The framework allegedly aims to connect China to markets and people all around Eurasia, spanning almost 80 countries through a budget seven times greater than the Marshall Plan. While sometimes held as a major case of neo-imperialism through ‘debt diplomacy’, openly offering loans to poor governments under strategic rather than financial criteria, the initiative is better understood as an example of ‘crony diplomacy’ (Akpaninyie, 2019).

Against the common narrative, the State-wide coordination required for ‘debt diplomacy’ seems to remain out of reach for the CCP: “to survive and thrive officials must at least appear to be enthusiastic implementers of central directives (...) creating the misleading appearance of a tightly-controlled, top-down governmental machine”.²⁰ That is due to the reliance of Chinese leaders on “disaggregated bureaucracies” to “develop their vague slogans into policies”, prompting them to “identify their concerns as core interests to acquire more power and resources”, therefore “skewing implementation significantly”.²¹

A massive study has analyzed 173 BRI projects only to concur with that diagnosis: “far from strictly following Beijing’s grand designs, much of the BRI’s activity to date looks more scattered and opportunistic”.²² Yet another 270 BRI projects were found to be either “impractical or financially unviable”.²³ Some have regarded the issue as “an inevitable result of China’s internal political system”, attributing the malaise to the CCP structure:

“[Officials] have no incentive to approve financially sound investments: by the time [they] materialize, they will have been transferred elsewhere. BRI projects are shaped first and foremost by the political incentives their planners face in China: There is no better way to signal one’s loyalty to Xi than by laboring for his favored foreign-policy initiative. (...) The most important criteria for a project is how easily the BRI label can be slapped on to it.”²⁴

²⁰ Jones et al. (2019: 8)

²¹ Ibid.

²² Hillman (2018: 5).

²³ Greer (2018).

²⁴ Ibid. (2018: 10). Indeed, there is a plethora of examples of existing initiatives being straightforwardly re-branded, even decades after they were started, to pass them under the Belt and Road Initiative label.

While not a diplomatic malaise *per se*, this has large diplomatic effects: even verbatim quotes from officials “concede” that the various departments and agencies involved in foreign aid have created “chaos and disorder”.²⁵ So much so, that some State organs even dare to ignore central guidelines. While CCP does minimize “open defiance”, there are “many documented instances of agencies [including SOEs, local governments and the security forces] taking action overseas without approval, or violating national laws and policies to pursue their particular interests”.²⁶ The broader conclusion is that officials “only think about making money for themselves or interest groups”, which in the BRI context means mainly Chinese companies whose “bad conduct” is permitted -or even prompted.²⁷ That takes us back to the dichotomy between ‘debt’ and ‘crony’ diplomacy:

“These companies, knowingly or unknowingly, persuade countries to pursue projects where benefits to the firms far outpace the benefits of the host nation. Asymmetric information or deception may even misrepresent the feasibility or sustainability of pursued projects. What is worse, governments sign onto non-concessional loans that accrue high interest rates or carry onerous terms that disadvantage already vulnerable countries”.²⁸

Our reasoning so far has been the following. Economic growth may be expected to have an impact on Chinese politics, including the oligarchization of the State. That would not only affect its legitimacy, much harder to track, but also prompt opportunistic corruption. In fact, looking at membership premiums and key BRI projects, that seems to be the case.

While the BRI does not strictly allow to draw conclusions about other spheres of action, even though it seems unfeasible that a plunder of the scope seen here could be undergone without widespread cronyism and short-termism, it seems to be worrying enough in itself. The takeaway of our case study, however, allows us to give our oligarchization insight an entirely new scope. Before describing the impact of said process on the economic realm in Section 2.3, we may first determine whether the lack of compliance with good practices of the CCP officials is also paralleled by a similar detachment of all the Chinese people. Since civilians lack a policy-making track record to be analyzed, we ought to focus on the economically-induced changes on their personal practices and politico-moral beliefs.

²⁵ Jones et al. (2019: 13).

²⁶ Jones et al. (2019: 8).

²⁷ Ibid. (2019: 13).

²⁸ Akpaninyie (2019).

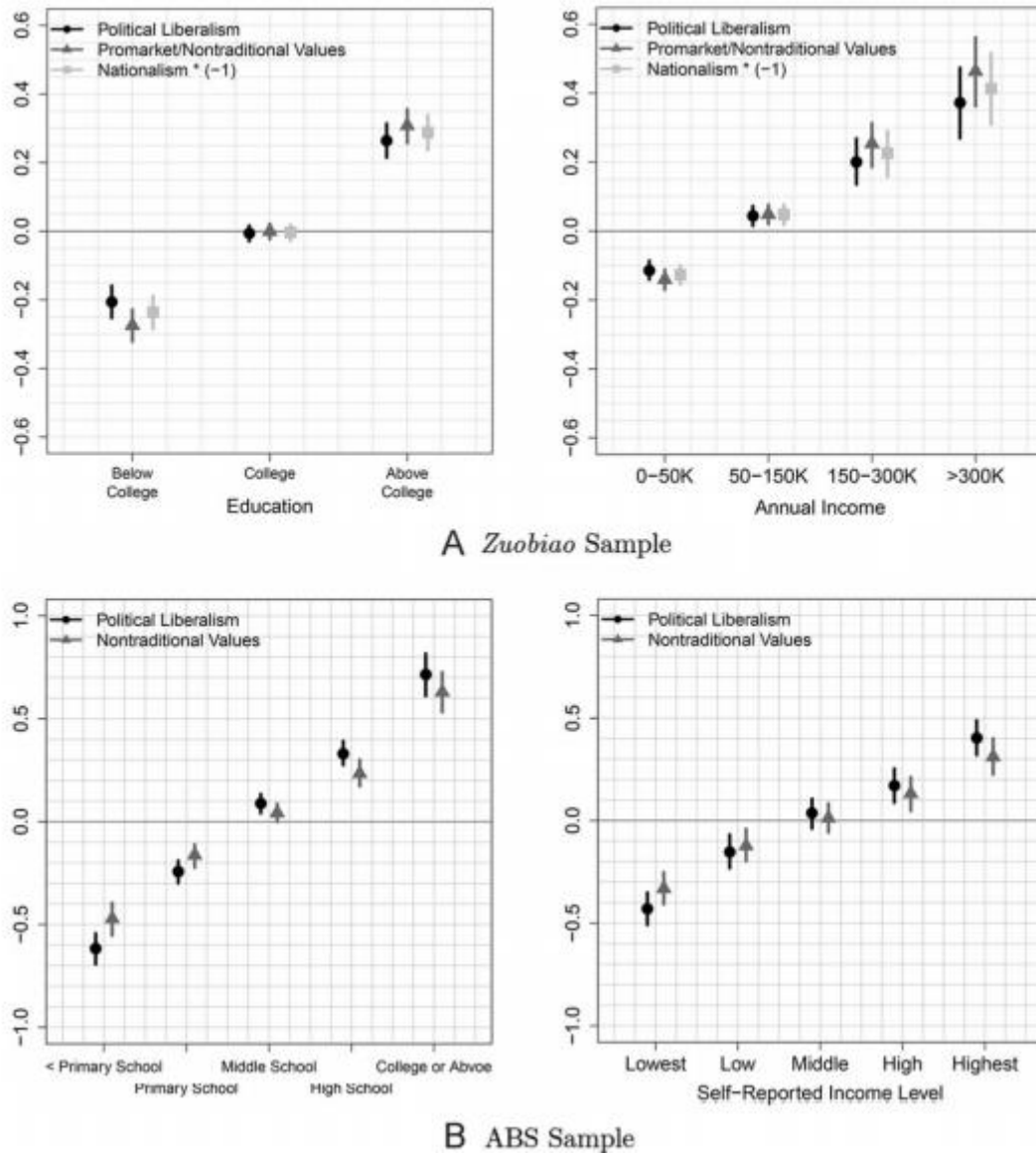
2.2 Civil society

Milanovic well notes that capitalism has been uniquely successful in creating what John Rawls considered necessary for the stability of a system: “that individuals in their daily actions manifest and thus reinforce the broader values [upon which it is based]”. Per his own words “it may be difficult to convince a person who differs from us in life experience, gender, race, or background of some of our beliefs, concerns and motivations. But that same person will easily understand the language of money and profit” (2019: 3-5). The question tackled by this subsection, therefore, goes as follows. *How is the compliance of the Chinese people to the rules and values upon which their system is based affected by (A) the consequences of the previously studied tendencies and (B) economic growth itself?* Two parallel perspectives will structure our answer in this part: demographics and beliefs. If populational preservation and balancing were to be taken as a source of implicit rules upon which any societal system is based (given that, without them, any system collapses), the answer is that the Chinese miracle has had a very negative impact on their compliance. For values and beliefs the answer is less clear, although there is ground to be concerned.

Interestingly, the impact on public opinion of those two factors (*A & B*) is more revealing when studied as a combined process. In that framing, *economic growth reshapes people first* (pushing education, urbanization, international tourism, social networks, digital gadgets and Fordism, the unionizing mode of production par excellence, into their lives). That could have feasibly changed an entire political arena by itself. Individuals have more tools to criticize the *statu quo* when they are highly educated, well-traveled and organized. However, as we have seen in the last two sections, *economic growth then reshapes policy*. And that effect, mainly translated in rent-seeking and short termism, undermines growth. If the miraculous growth story ceased to appease any discontent that the Orwellianism of a corrupted elite may have seeded, the legitimacy of the CCP ruling bargain could shiver.

With a gargantuan poll of 460,532 respondents, Pan et al. (2018) thoroughly studied the Chinese ideological spectrum, which will lay at the core of our popular values analysis. They test its robustness with yet another big sample, the Asian Barometer Survey (ABS). Both databases concur in the responses to the many questions they embody into groups: pro-market reformism and non-traditional values; political liberalism; and nationalism. Nation-wide, the richer, better educated, more urbanized, and younger the respondents, the more likely they were to turn out politically liberal, non-traditionalist, non-nationalist and favorable to further liberalizing the Chinese economy. These are earth-shaking news.

Figure 3: Development is a double-edged sword (Pan et al. 2018: Figure 10)



This brings us back to the political boundaries that the ever-expanding liberalization of the Chinese economy may have. In our catch-22 framing, for instance, the same growth that led to the oligarchization of the CCP seen in Section 2.1 could be responsible for spreading support for pro-market reforms among the masses. Yet, ironically enough, the same reforms that enriched them in the first place could deprive the current bourgeois from crony and oligopolistic rents (like the aforementioned Party membership premium). As reported, those incumbent elites are interestingly well connected with policy-makers, which adds to their perverse incentives the actual tools to pre-empt any future competition that further reforms may entail. Nevertheless, and closing our circular paradox back, putting the personal interests of key CCP elites can come at the expense of the legitimacy of the entire *statu quo*, fostering discontent among the people and other excluded groups.

Similarly, as reasoned in Section 2.2, the CCP response to the 2008 Crisis illustrates a rather desperate try to drain any last drops of juice that the investment-led development may had left, neglecting the bad prospects set by the record of its many failed precedents. That is better understood when considering the threat posed by this public opinion, which keeps progressively increasing along with their financial independence (see Section 2.1).

However, legitimacy is not the only contested arena in which Chinese people are meant to play a key political role, even though their State does not officially recognize them any. Demographics, which in China inevitably requires to mention the 1978-2016 One-Child policy, encompasses the perhaps most systemic threat to the CCP establishment created by economically-induced changes in popular values. Returning to our inaugural framing, natality is by definition a practice required for the endurance of any sociological system. Therefore, the values that reinforce it are always pillars upon which any system is based.

While the populational collapse is not exclusive to China (in fact, all countries in the third stage of the demographic transition are facing it), the CCP has worse prospects than most. The official figures²⁹ are alarming: even after retiring the One-Child policy, they had dropped to some 1.6 children per women, well below the minimum 2.1 replacement rate. That is in itself worse than the 1.8 of the United States, its contestant for world hegemony. Yet, after scrutinizing their sources, a survey from the National Bureau of Statistics, PhD. M. Wang has argued that the actual figures may be even worse what the CCP has reported:

“(…) far below the 2.1 replacement level, national TFR fluctuated around 1.4 since 2003, before dropping to around 1.2 since 2010 and finally reaching an astoundingly low value of 1.05 in 2015.” (2018: 7, Figure 3 and S5).

Those unofficial figures are more in the ballpark of the overseas Han communities, like the Taiwanese Han (1.13), Chinese Malaysians (1.3) and Chinese Singaporeans (0.98).³⁰ Northeastern provinces in China have registered world-wide record lows, though, falling to the “extremely low level around 0.75 [children per woman]”, which seems consistent with a parallel drop in GDP growth rates from the national average to the lowest 20%.³¹ Notice that the CCP response to this catastrophic collapse has been to replace the One-Child policy with a new Two-Child policy. That is, third and beyond births are still illegal.

²⁹ (World Bank, 2016); (United Nations, 2016).

³⁰ CIA World Factbook (2020) and (Department of Statistics of Singapore, 2018).

³¹ Wang (2018: 8).

Besides, we must also highlight the recurring tendency of CCP officials to downplay or straightforwardly censor any data that points to the actual size of the demographic threat:

“Regrettably, such data for 2016 were no longer published in the most recent 2017 yearbook as the official publication mentioned that "In comparison with China Statistical Yearbook 2016, following revisions have been made in this new version in terms of the statistical contents and in editing: Of the chapter "Population", table named Age-specific Fertility Rate of Childbearing Women by Age of Mother and Birth Order is deleted." (China Statistical Yearbook 2017). Reasons were unknown for the deletion of this table, and it was unclear if the deletion would be temporary or permanent, or whether such deletion would continue in future years beyond 2016.” Wang (2018: 2-3)

The scope of this demographic collapse is remarkably unprecedented in human history. Moreover, it is arguably worsened by the ethnic cleansing campaigns that regional units are undergoing, being the one in Xinjiang against the Muslim Turk and Kazakh minority the most remarkable one. By 2018, the populational impact of the jailing over a million individuals in gulags officially known as Vocational Training Internment Camps (VTICs) had averted several hundreds of thousands births, reducing Uygur fertility by some 85%.³²

Another Chinese handicap, from a comparative perspective, is the lack of immigration. When compared, again, to the US, the figures are revealing. In 2016, China issued 1,576 permanent residency cards, that is 750 times less than the 1.2 million issued in the USA. Considering the Chinese demographic collapse mentioned above, the reluctance to admit more immigrants is suspicious. Further research is needed to determine its link with the reliance of the CCP on means like mass indoctrination, propaganda, or censorship, which could make party officials believe that foreign individuals may end up fostering dissent.

All in all, we can affirm that economic growth has changed the Chinese people and their values enough to pose a latent threat to the political order established by the Party-State. As mentioned above, growth has turned out to be a double-edged sword, that legitimizes the CCP rule in the short-run while seeds challenges able to threaten in in the long-term. While the rising ideological dissent among financially independent agents is disturbing, we see the demographic collapse as the most worrying challenge of all the ones mentioned in this work. If policy-makers remain blinded by the short-term, it may be catastrophic.

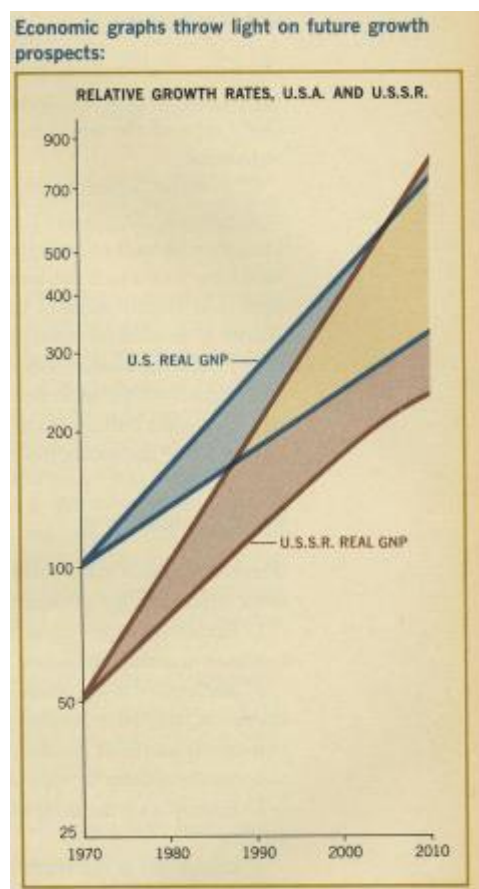
³² Zenz (2019).

2.3 Structural fragility

We will develop the more economic component of our reasoning throughout this section. Its link with our prior hypothesis regarding the impact of prosperity on political dynamics comes from two intertwined ideas, both of which we approach from our catch-22 framing. On the one hand, we aim to explore the inherent limits of the Chinese model of growth, both theoretically and comparatively. The secondary hypothesis we aim to test, yet again in close relation with our core one, is whether said investment-led system is self-limiting. On the other hand, since we believe that to be the case, we will look at the likelihood of the reforms that replacing the model in place would require. Our second-tier hypothesis here is that the organizational malaise unleashed by economic growth (as per Section 2.1) may obstruct said reforms. If we are right, the Chinese miracle would lead to a catch-22: whereas immobilism faces prospects of stagnation and disappointed popular expectations, pro-growth reforms would be hindered by the legislative malaise rooted in growth itself.

On a separate note, the strange infatuation that the Chinese miracle arouses needs to be reconsidered. Foreign observers seem to see it as a mysterious phenomenon (being its core appeal the promise of remaining a refuge of mystery itself -which have become quite scarce). The CCP has managed to seduce observers, not without historic precedents, with its fairytale of a mold-breaking, inexplicable success. So much so, that trying to account for it from within the established economic wisdom has come to raise suspicion of a cynic dogmatism. However, well-grounded skepticism is rarely an unhealthy habit, and any debate should be focused on discarding wrong answers, not on censoring uncomfortable questions. So, if we compare the current conventional wisdom to its predecessors (Figure 4), our wrong answer candidate would be:

Figure 1: Takeover (Samuelson, 1970)



“[China’s GDPpc] shows a clear tendency to keep on rising (relative to the West); and it will probably continue to do so until the time when incomes become very similar” (Milanovic, 2019: 8). The question to ask, of course, is always going to be ‘what if not?’.

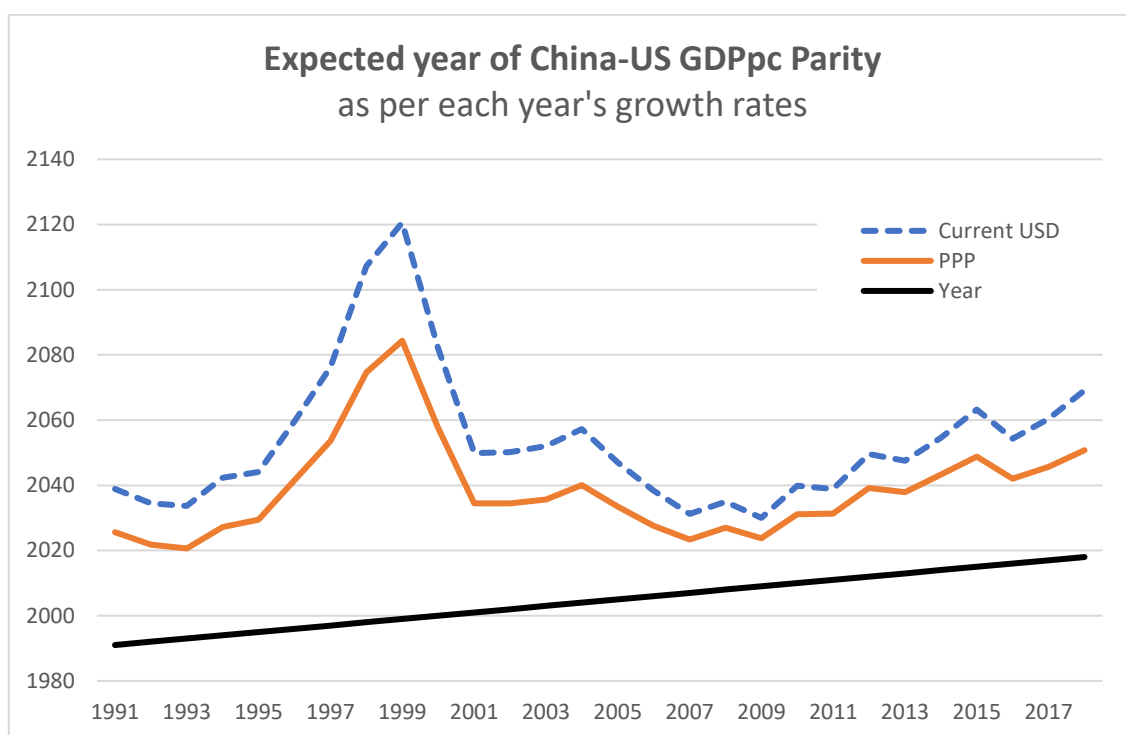
Needless to say, conventional wisdom has been wrong before. To unbelievable extents. Once upon a time, way before the Chinese miracle, several other mysterious black boxes had to bear the weight of keeping alive the same idea: that History is not dead (-ly boring). Assessing otherwise was disregarded with disdain, for a black box is intriguing inasmuch as it stays, well, 'black'. When Warren Nutter (1957) and others started questioning the structural unsustainability of the Soviet economy, the textbook consensus that dismissed their worries was that the USSR was supposed to outgrow the United States economy by 1984, 1997 at the latest (Samuelson, 1961). Assessments like this were not only taught to students for decades, until well into the 1980s, but also excused their successive predictive failures, blaming “exogenous shocks outside the scope of theory” *ad hoc* (Levy, 2011, 8). In order to account for the current system objectively, we have stated clearly enough that the opposite happens to be true. The high-savings, investment-led, input-directed growth model is an old one, and can trace its roots “at least” to the 1820-30 United States (Pettis, 2017). When the Soviet Union applied it, precedents (1930s Germany and 1950s Brazil) were as recent as when China started following suit (1960s Japan and 1970s South Korea). Neither their approaches nor their results were quite profoundly shocking or mysterious.

While looking for common patterns among said precedents of the Chinese growth model can help us test our secondary hypothesis regarding its self-limiting nature, we may need revisit the theoretical foundation we laid down in Section 1.4.3 to know what to look for. As per Gerschenkron (1962), low-hanging fruit may refer to large, ground-setting reforms of proved reliability. In the latter part lays the key of the Dengist miracle, which focuses on leveraging such “late mover advantage”. The savvy ways in which China did so were indeed innovative by all means, but they remained focused on the intersection between reliability (understanding as low hanging fruit the institutions and technologies of proven efficacy in advanced economies -who could not externalize their R&D) and state control.

The apparent paradox between fostering liberalization (which, by definition, loosens the state control over the economy) and centralized planning remains crucial to apprehend the inherent limits of the Chinese model. Matter of fact, decades of sustained growth did cost the CCP more than most autocracies would be willing to lose (i.e., losing a financially dependent civil society or an oligarchization weakening state capacity and elite cohesion). The bargain that channeled such transformation, however, permitted the State-Party to influence the increasingly decentralized economy in an investment-led manner through the infrastructure sector. A tool whose diminishing returns, we think, should be trackable.

For the sake of clarity, we may highlight yet once again that the reasoning of this section is divided in two spheres: first, whether the self-limiting nature of the Chinese growth model could eventually pose a political challenge in itself; and second, how do the studied trends affect the odds of the reform that said task would require, if it was indeed the case. To test the former, we look at the available evidence in search for the diminishing returns that our prior theoretical account forecasted for its post-1978 investment-led paradigm. This idea may sound counterintuitive amid the generalized narrative regarding how China is -somewhat teleologically- bound to catch up with the Western world in productivity, but, in reality, such convergence tale has already been challenged by the facts for decades:

*Figure 5: The Great Delay*³³



That is, of course, as per the infamously unreliable official growth figures given by China. An extensive literature has been dedicated to estimate the *actual* growth rates hidden in the CCP statistics, however. Amid the most recent accounts, Chen et al. (2019) shine in their own light due to their savvy leverage of the tweaked data itself, by reinterpreting the National Bureau of Statistics (NBS) figures. As per their own estimate, GDP growth in the period encompassing from 2008 to 2016 could have been in China as low as 1.7 points below the official percentages, while the investment and savings rate could have been exaggerated by as much as 7 entire percentage points, delaying convergence even further.

³³ Source: Data retrieved from the World Bank's database (as of May 2020).

As we can see, the extrapolation of Chinese 1990s growth rates yielded a forecast -that of convergence with the West in productivity by 2020- that has shown to be as inaccurate as the similar exercise performed by Paul Samuelson with the USSR 1950s growth rates. That is to say, the Chinese model for development does seem to be facing some problems, but a question remains key to test our hypothesis about its potential self-limiting nature: is the root of such slowdown somewhat exogenous, or rather inherent to said very model?

Following the theoretical groundwork described above (for more detail see Section 1.4.3), we may expect an investment-led paradigm focused on leveraging a Gerschenkronian late mover advantage to yield diminishing returns as it simply runs out of ‘low-hanging-fruit’. Our prior account of the BRI already backed up this formal insight with empirical data, which also served, moreover, to raise further suspicion about the spread of such malaise. In short, we may expect the root of such slowdown to be related to a good extent to the infrastructure sector (due to its centrality for any investment-led approach), and the flaws we saw in it within the BRI framework may similarly be expected to be rather systematic:

“The real impetus for expanding infrastructure programs through OBOR was the long-term fallout from the 2007–2008 global financial crisis. China rode out the crisis only through a US\$586 billion stimulus package, mostly involving local government borrowing to finance infrastructure projects.

By the early 2010s, the stimulus was spent and many local governments were virtually bankrupt. Overcapacity exceeded 30% in the iron, steel, glass, cement, aluminum and power generation industries. Many SOEs [read: state-owned enterprises, tightly controlled by the CCP] faced a major profitability crisis, with returns on domestic infrastructure turning negative [net loss]”.³⁴

Other scholars have arrived at the same conclusion: infrastructure investment, the single, most important pillar of the Chinese miracle, is not only yielding diminishing returns, but straight up generating net losses for the political authorities that undergo such projects. For instance, Ansar et al. (2016: 377), after reviewing a myriad of CCP projects, concur: “a typical infrastructure investment has destroyed economic value in China due to poor management of risks that impact cost, time, and benefits”. The impact of such statement on the odds of a productivity convergence with the West is hard to overstate. Zeng Peiyan, former minister in charge of the Development Planning Commission, acknowledged that:

³⁴ Jones et al. (2019: 11).

“[Only if infrastructure investment] grows by 15 to 18 percent (per year) can we reach 8 percent economic growth”.³⁵ While it is true that at the time, in 1998, Asia was the midst of a financial crisis, that dependency is not anywhere less worrying nowadays, when Asia also faces the threat of an unparalleled financial crisis due to the COVID-19 pandemic. Such reliance on infrastructure to achieve growth, combined to the diagnosis that projects in the sector are typically unprofitable due to their poor design, points exactly towards the insight that our theoretical framework highlighted in the first place. The CCP growth model is indeed exhausted and in need of a reform, and such exhaustion has come from its very self-limiting nature in the form of the mentioned structurally diminishing returns. Its prospects in regard to the aforementioned long-awaited convergence are even starker: “Yuan depreciation against the dollar is more plausible in this low-growth scenario, which would put off GDP parity almost another decade”, according to Scissors (2019). It is worth noting how such intertwined trends confirm our prior insight that the BRI case could feasibly point to a broader organizational malaise that affected other sectors as well:

“Meanwhile, Chinese banks faced their own over-accumulation crisis, with US\$3 trillion in foreign exchange reserves and dwindling domestic lending prospects [notice how the infrastructure malaise spreads]. *For these interests, OBOR represented an opportunity to internationalize their domestic surplus capacity.* Unsurprisingly, these politico-economic actors lobbied furiously to influence the translation of Xi’s slogans into concrete policy”.³⁶

In a display of recession-phobia that seemed coherent with the importance we have given so far to avoid disappointing the growth expectations laid by the past, the CCP answered the 2008 global financial crisis by deliberately fostering a huge investment bubble whose main beneficiaries were -as per usual- affiliated entities (SOEs). The result was key to prove its investment-led model exhausted: on a micro level, the share of all profits held by said entities halved to one fifth, their debt/equity ratios went from matching the private ones to tripling them and their once competitive return on assets plummeted to one fourth of that of private companies.³⁷ That massively inefficient process of rent-capturing by the CCP apparatchiks rendered, as mentioned, declining real output and factor productivity. Closing the circle: growth-based legitimacy can be eroded by growth-based corruption.

³⁵ Ansar et al. (2016: 361).

³⁶ Jones et al. (2019: 11).

³⁷ The Economist (2015).

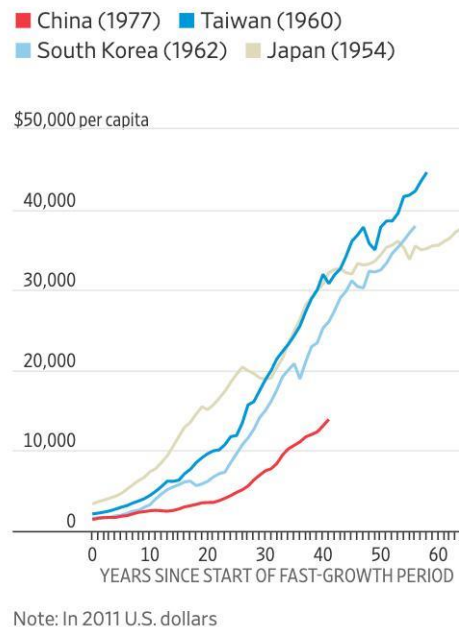
Which leads us to the second part of this section, in regard to the odds of the much-needed reform. While it is true that our reasoning so far may sound counter-intuitive under the light shed by the mainstream narrative regarding the Chinese miracle, which tends to portray it as some sort of *rara avis*, in reality its track record -while certainly impressive given its population size- was actually less successful than the prior Asian developmental states it was originally built after. The so-called Asian Tigers that preceded China in their shared development path did manage to act upon the diminishing returns that now burden the Chinese odds for further economic growth, and successfully so: they transitioned from the investment-led paradigm to market economies led by the private sector in a decentralized way.

Figure 6: Falling short (Ip, 2019)

The China Model Has a Problem

China's prospects for catching up to its neighbors are clouded by inefficient investment and falling productivity growth.

Per capita GDP since beginning of fast-growth period



Accounting for the likelihood of the CCP following suit receives the emphasis of the last component of our reasoning. While the forecasts based on inter-country comparisons tend to group China along with its more successful Asian neighbors, the resemblances with the USSR are interestingly more striking. In fact, they seem to point to a rather worrying outlook for the Chinese growth prospects, which could lead to disappointing expectations:

“Despite high investment, growth in output and productivity slowed sharply” has finally become conventional wisdom regarding the exhaustion of the Soviet model by the 1970s, for its edge tends to fall overtime “unless new productive uses for capital can be found”.³⁸ In the post-2008 China, real output and productivity are even declining (Wu et al., 2016). It is worth highlighting how well these increasingly accepted diagnoses fit our framing: China faces the ‘same’ Soviet problem, “capital, directed by political interests, piling up [inefficiently]” and it has “run out of room” to grow by “mimicking” advanced countries, since, as the rich world has ‘discovered’, growing becomes “more difficult over time”.³⁹

³⁸ (The Economist, 2018)

³⁹ Ibid.

Figure 7: Another tale of diminishing returns⁴⁰



Notice the empirical fact that the CCP has not allowed a single year of recession in the 42 years since the beginning of China's fast-growth period, unlike its Asian democratic neighbors (for instance, Japan saw negative growth in 1974 and 1993, South Korea did so in 1980 and 1998, and Taiwan also followed suit in the late 1970s, 1990s and 2000s). While the USSR did experience several recessions, far from weakening the parallelisms with the Dengist China, it merely suggests that the latter enjoyed a much larger room for maneuver than the former (feasibly rooted in the bigger role of its flexible private sector).

The theoretical account for said resemblances, which seem at this point more illustrative than the commonly used ones regarding the so-called Asian Tigers, can be found in the political replacement effect we introduced in Section 1.4.3. The key to foresee the odds of reform in China lays, we believe, in apprehending its mentioned non-monotonic nature.

The apparent paradox we have to resolve here is that, if we were to draw a link between politics and growth-related reforms (including both those favorable and detrimental to it), we would need a framing able to answer both of these, seemingly incompatible queries:

1. How is it that countries with opposite political dynamics (the ones, with fully free electoral competition; and the CCP, one of the most entrenched ruling elites ever after several Maoist cleansings) pushed forward similar growth-boosting reforms?
2. Why is it that Dengist China, after undergoing decades of the most transformative process of economic growth ever recorded, seems to struggle at adapting its model to the main reforms required to keep pace with the expectations it has laid down?

⁴⁰ The Economist (2018).

Although it is true that both questions involve a variety of inter-dependent, hard to isolate variables, we believe they share a common answer rooted in our aforementioned framing. As mentioned before, the second one has to be taken into consideration with the caveat of the several trends that make the task of achieving further economic growth even harder (such as the progressive loss of advantages of backwardness in the Middle-Income Trap). However, our focus is rather on the diminishing ability of the Party-State to undertake it, which is linked to the first question inasmuch as it once was, indeed, capable of doing so.

As per Acemoglu (2003), there is no such thing as a Coase Theorem in politics: not all of the investments that would increase the total ‘economic pie’ of a society take place, for there is no *credible ex-post* way of compensating the ruling elites after being overthrown. This ‘credibility trap’ takes us back to the Collective Action Problem rationale: a *statu quo* that is suboptimal for a disorganized majority may persist in time if it allows a given minority to prioritize their individual interests over the general ones. Yet again, consider:

“The impact of political competition on blocking is non-monotonic (...). Both political elites that are subject to competition and those that are highly entrenched are likely to adopt new technologies [ones are likely to be replaced otherwise; the others face no downside doing so]. Instead, it is elites that are somewhat entrenched but still fear replacement that will block innovation.”⁴¹

It is a must to highlight how that same idea, that the political replacement effect follows a non-monotonic fashion, accounts for both of the doubts standing in the way of our link between politics and economic reform. Dengist elites faced no competition when reforms started, and thus could comfortably embrace the “turbulence” that technological change carries with it without fearing being replaced. East Asian democracies were in the other side of the spectrum: they faced plenty of political competition instead, but in lack of the coercive means that autocracies provide to their incumbents, successful economic reform became a peaceful tool to gain an edge over electoral adversaries. This non-monotonicity is revealing. The effect of fearing being replaced incentivizes elites to push forward policy that increases the social pie, for it yields a popularity edge that becomes crucial in ballots; however, when that fear is completely missing given an absolute lack of any competition, leaders still have incentives to push forward ‘pie-increasing’ reforms, for they do not face the trade-off of losing the future fruits of pro-growth policies to their (non-existent) rivals.

⁴¹ Acemoglu and Robinson (2006 : 116).

Moreover, it also accounts for the current, seemingly paradoxical, struggle faced by China to push forward the reforms needed to avoid a gradual downfall into the Middle-Income Trap. While both political competition and a complete lack of it can incentivize the ruling elites to embrace economic growth albeit the turbulence it carries with it, standing amid those two sides of a conceptual ‘political competition spectrum’ has the opposite impact. That is where the key to the last part of our reasoning, regarding the odds of a new reform, lays: current China has transitioned from one side of the spectrum to its center, leaving behind the Dengist times of zero competition to start eroding elite cohesion (Section 2.1).

For its impact is non-monotonic, the center of said spectrum does not yield some kind of ameliorated version of what we would see at either one of its sides, but rather a completely different picture altogether. While autocratic China shared with pluralist democracies the ability to embrace growth-driven turbulence, now that rationale is hampered by its stance at the center of the spectrum, rather than at either one of its sides. On the one hand, CCP incumbents cannot rely anymore on the larger room for maneuver that the elite cohesion of the past yielded: the turbulence brought by reforms could indeed pose now a real threat. The more *antifragile* groups would grow even stronger, at the expense of the other elites. On the other hand, while the successful pursuit of economic growth does serve as an edge to gain the favor of the public against competing elites, it also feeds future expectations. The odds for any reform, therefore, are bound to be framed in a catch-22 type of fashion.

Hundreds of millions of Chinese citizens have grown up and lived their lives in a context where not only growth, but outstanding growth, was almost a given. Their life plans and views of the world are shaped by the expectation that such trait of their environment, that has uninterruptedly been fine clockwork for two generations, will stay largely the same. However, as we have seen before in this section, not only does growth itself become ever more challenging to maintain as you climb up the ladder towards the productivity frontier, but there also are several major obstacles increasingly burdening the Chinese economy (from corruption, to crony-driven financial bubbles, to massive demographic challenges).

All in all, the takeaway from this section should combine the two intertwined ideas it first aimed to tackle. As the investment-led Dengist model is both self-limited and exhausted, the odds for a reform face a catch-22 crossroad at a time when growth is harder than ever. Economic growth, in short, has led Chinese political dynamics to an impasse, which result will not just determine the near future of their people, but also reshape global capitalism. Given the identified upcoming headwinds, the process will be nothing short of difficult.

3. Conclusions

Our aim in this section will be to harmonize the findings of the several previous sections. The core question remains the same: whether (and how) economic growth has affected, since the late 1970s, the power dynamics in the People's Republic of China. Our central hypotheses still stands, too: we argue that it indeed has reshaped those dynamics, and may be expected to continue doing so. This work has been structured around our take on the "how", extending our analysis to (1) the evolution of ranks of the CCP and its impact on policy decisions; (2) the role of the Chinese society on the validity of their social contract; and (3) the sustainability and prospects of its growth model. These are our conclusions:

In Section 2.1 we treated the reality of Chinese politics *per se*, researching the evolution of the Chinese political arena and the player that has typically monopolized it, the CCP. We found that the steep economic growth experienced in recent decades, after the Dengist reforms of the last quarter of the 20th Century, has had a significant impact, resulting in:

1. The ubiquity of the Party-State has been eroded by economic growth, giving rise to once-inexistent political agents who are, furthermore, financially-independent. Although these newcomers and their latent concerns may have remained appeased by the successful pursuit of economic growth, which we regard key for the social contract of the post-Maoist era, they constitute a permanent concern for the CCP. Their proliferation and financial autonomy is directly related to the liberalization upon which the Party has founded its development model, in a Faustian bargain. That illustrates the catch-22 notion that structures our entire reasoning: even the right decisions for short-term survival may turn out to be a source of future threats.
2. The ranks of the Party are being increasingly invaded by some of those newcomers whose financial independence prompt to opportunistically prioritize their agenda. As crony interests are progressively prioritized over ideology and *raison d'Etat*, the CCP may be expected to be more affected by rent-seeking and short-termism, which we regard coherent with the oligarchization that our ILO framing predicts. Moreover, the bourgeoisie *sui generis* has not only gained influence over the Party, but also managed to leverage its membership to obtain a juicy economic premium. It is worth noting that no other elite group has been able to follow suit, possibly indicating a collusion among capitalists to exclude competing factions. Such lack of elite cohesion in dictatorships has historically been a proxy for regime fracture.

With the Belt and Road Initiative, signature *magnum opus* of Xi Jinping, we illustrated the consequences of such trends: financially unsound, crony projects driven by corrupted apparatchiks are undermining the purportedly strategic motivation of said masterplan. What is more interesting, our case study seemed to prove that malaise rather systemic, leading us to Section 2.3, where we explored the Chinese development model as a whole and addressed the concerns regarding its sustainability and the feasibility of reforming it.

3. Albeit the infatuation aroused by the Chinese miracle is well justified by its merits, combining economic theory and historical comparisons allow for a more realistic account of its success and prospects. As per both its predecessors and foundation, we may expect such investment-led approach to start yielding diminishing returns. Said insight is indeed confirmed by the available evidence, showing a slowdown that points to the self-limiting nature of the model and the rising need for a reform. The overreliance on the infrastructure sector that once allowed for faster growth, increasingly exploited by corrupt and short-sighted officials, has become a burden that destroys economic value and spreads its organizational malaise to the system. The oligarchization seen above stands, moreover, in the way of a reform, led by the fear to the ‘political replacement effect’, making it much less likely to happen.

Such challenges are mounting up at a time when achieving growth is tougher than ever, raising concerns about the sustainability of the expectations laid down by the recent past. Legitimacy is, in short, becoming an ever-harder endeavor in a context where civil society has become mighty enough to give its beliefs and practices a growing political relevance:

4. Section 2.2 explored how economic growth has led the Chinese people to abandon personal practices that were key for the Dengist miracle (fertility growth, savings) and gradually embrace political views that challenge the social contract in place. Development, in a way, seems to be allowing the masses to exert political action, even when they lack institutionalized means to channel their interests and beliefs.

We can confirm, therefore, that the hypotheses stated at the beginning of our work can be answered affirmatively. Economic growth does seem to have had a noticeable impact on political dynamics, both within the CCP and on the Chinese society. We began wondering whether these developments could have an impact on the overall legitimacy and prospects of the establishment, and under the light of our research we can affirm that to be the case, for they may shape future power dynamics, potentially outdating the 1978 social contract.

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