Cute Panda or Evil Dragon? Market Economy, Conflict Behavior and China's Peaceful Rise

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CUTE PANDA OR EVIL DRAGON?
MARKET ECONOMY, CONFLICT BEHAVIOR AND CHINA’S PEACEFUL RISE

by

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A dissertation submitted in partial fulfillment of the requirements
for the degree of Doctor of Philosophy
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ABSTRACT

China has two contrasting images in the West: a cute panda and an evil dragon. In recent years, a near-consensus seems to be forming among policy makers in Washington that the People’s Republic of China (PRC) is more of an evil dragon than a cute panda, using “sharp power” to threaten U.S. interests and world peace. The PRC is regarded by the current U.S. administration as a “strategic competitor,” and a new Cold War seems to be looming between the world’s two largest economies. Is the rise of China destined to cause conflicts or even war?

After analyzing the conflict behavior of the PRC documented in the Correlates of War project’s Militarized Interstate Dispute dataset (v4.3), this research shows that China’s rise does not seem to make conflict more likely. Instead, with the growth of its power, Beijing has become increasingly reluctant to use force against other states. Drawing on the economic norms theory, the author argues that the development of the capitalist-market economy since late 1970s has fundamentally changed China’s economic conditions, social norms and political culture. This transformation has helped the PRC form increasing interests in maintaining a robust global marketplace and a peaceful world order, thus making war or serious conflicts with other nations almost unimaginable.

Currently, China is more a panda rather than a dragon. However, the West needs to remember that though vegetarian and non-predatory, pandas are bears with sharp teeth and nails. When pressured and cornered, they can be dangerous. The misunderstanding and fear of China, rather than the rise of China itself, is the real cause of the recent rise of US-China frictions.
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The rise of great powers is often, if not always, accompanied with serious conflicts and even disastrous international wars. This sad fact is dubbed by some scholars as “tragedy of great power politics” (Mearsheimer 2001). In the last two decades, the world has witnessed another bunch of great powers emerging rapidly. The People’s Republic of China (PRC) is no doubt the top dog among them. According to a report released by the International Comparison Program (ICP) guided by the World Bank, China was estimated to surpass the United States as the largest economy in purchasing power parity measures in the year 2014 (BBC 2014b). More milestones of China’s economic rise were recorded in recent years. China overtook Germany as the largest exporter in 2010, and surpassed Japan as the second largest economy in the same year. China replaced the United States as the biggest trading nation of merchandised products in 2013 (The Guardian 2014). As its economy grows rapidly, China’s military power also experienced a quick increase. Its military budget maintained a continuous growth for 24 consecutive years and the PRC spent 10 times more in 2018 than it did in 1994. It is the second largest military spender in the world after the United States (SIPRI 2019).

As China rises quickly, will it behave like the past rising revisionist powers and try to challenge the hegemon of the system? Or will China’s rise much resemble that of the United States and avoid serious conflicts with the dominant power (Great Britain as in the U.S. case)? These
questions are among the most fundamental ones for students of international relations because how the two most powerful states in the world will get along with each other can largely shape the international politics. China’s rise does not only concern itself. It may also determine peace or war of the Asia-Pacific region or even the whole world. Therefore, the rise of China is believed to be “one of the great dramas of the twenty-first century” (Ikenberry 2008: 23). It also “has the potential to fundamentally alter the architecture of the international system” (Mearsheimer 2014: 23).

China’s phenomenal increase in capabilities inevitably triggered widespread concerns in the West. In the early 1990s, the so-called “China threat” theory emerged in the West. The Economist published a special issue in 1992 named “When China Wakes: A Survey on China,” heralded the warning of a wakening China (Economist 1992). Some American scholars believed that China’s vigorous economy and assertive military policy were the real threat to the United States and future conflicts could not be avoided between the two countries (Munro 1992; Roy 1994). In his famous article on “Clash of Civilizations” published in Foreign Affairs, Huntington warned that a “Confucian-Islamic military connection has emerged to challenge Western interests, values and power” (1993:46). Since the turn of the new millennium, supporters of the “China threat” theory have been more certain that China and the United States would become major adversaries in the coming decades (Bernstein and Munro 1997; Mearsheimer 2006; Tammen and Kugler 2006). In recent years, especially after the 2008 Global Financial Crisis, there were prolific literature and discussions on China’s rise and the new assertiveness in its foreign policy making, as well as a potential power transition between the United States and China (Buzan 2014; Chan 2008; Ikenberry 2008; Johnston 2013; Lai 2011; Mearsheimer 2014;).

Despite the fact that the two countries are highly interdependent in economic terms, the
United States and China share a “strategic distrust” towards each other (Lieberthal and Wang 2012). As one China specialist in Washington claimed in 2015, the Sino-American relationship is near a “tipping point;” and respective fears and distrust might outweigh mutual hope than any time since the normalization of diplomatic relations between the two states in 1979 (Lampton 2015). Since the Trump administration came into power in the United States in early 2017, the bilateral relationship went downward quickly after a very brief period of honeymoon between them. It seems that Lampton’s worries of the “tipping point” have realized.

Recently, there have been more worries about the danger of the United States and China falling into the so-called “Thucydides’s Trap,” a historical metaphor used by Harvard scholar Graham Allison (2017) to describe the inevitability of war caused by the rise of Athens and the fear this inspired in the ruling Sparta. According to Allison, very few rising powers can avoid a war with the current hegemon in the last five centuries. Especially after the two countries upgraded their trade disputes to such a level that a “trade war” became the main theme of the bilateral relationship in 2018, there were even cries of a “new Cold War” going on between China and the United States.¹

Will China’s rise be peaceful? Can the United States and China escape the so-called “Thucydides Trap”? Are China and America really close to a new Cold War much resembling the Soviet Union and United States were at the end of the Second World War? This study is driven by such big questions. In the author’s opinion, before we can answer the questions above, we will

have to first come up with answers to some more basic questions: is China today really qualified as an enemy for the United States in a new cold war? Does China’s rise have to be based on a war with the United States? We do witness Beijing’s increasing confidence and assertiveness in its foreign policy making when China’s overall power surged in recent years, but does that mean the United States should automatically treat China as a serious strategic challenger such as Germany in 1890s, Japan in 1920s or the Soviet Union in mid-1940s? Why cannot China become Europe or Japan in 1950s or the United States in 1900s? Without a serious assessment of what China is, it is dangerous for the United States to hastily jump into a “new Cold War” which America itself might not have known where it is headed.

In Washington, there always have been two contrasting images about China, a “cute panda” and an “evil dragon.” Since the founding of the PRC in 1949, China was long regarded by Washington as an “evil dragon” who fought several wars on its peripheries and exported communist revolutions to other countries. After it embraced economic reforms in late 1970s, China enjoyed a decade-long “honeymoon” relationship with the West and was largely perceived as a peaceful “cute panda” (Gries 2004). The Tiananmen Square Incident in 1989 changed this image and the “evil dragon” perception of China reemerged. In the years followed, these two extreme views co-existed in the United States and China watchers have been labeled as either “panda-huggers” or “dragon-slayers” (Gifford 2010).²

It seems that today’s China more resembles the dragon in the eyes of the Trump administration, but to answer the two basic questions posed earlier, there must be a thorough and

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² As defined by Gifford, a “panda-hugger” is someone “who says that almost everything going on in China is good, that China's progress is a great thing for the world, and that any problems are peripheral.” In contrast a “dragon-slayer” is someone “who says the situation in China is terrible, that China is a threat to the world, and that any positive developments are just window-dressing” (Gifford 2010: 9).
serious assessment of what China was or is. In other words, is China a fundamentally peaceful vegetarian panda though periodically it shows its sharp claws similar to those of any other bears, or is it a basically vicious and predatory dragon hidden in its claimed peaceful intentions? Should the rise of China be regarded as a preamble of conflicts between the United States and China, or as a starting point of a complicated and comprehensive partnership? This dissertation hopes to address this difficult yet fundamental question of assessing the basic foreign policy characteristics of contemporary China.

Literature Review

There are three major schools in International Relations that offer valuable analyses on China’s rise and US-China relations: realist theories, power-transition theory and institutionalist theories. Based on the hegemonic wars in the past power transitions, realists and power-transition theorists naturally believe that China’s recent assertiveness is the evidence for great power ambitions, and that its road to a world power could not be smooth (Mearsheimer 2006; Tammen and Kugler 2006). Liberal institutionalists believe that the current world order can accommodate China’s rise (Ikenberry 2008; Nye 2011). In addition to these materialist and structural theories, some other scholars argue that China’s unique civilization and strategic culture can also influence the path of its rise (Huntington 1993; Johnston 1995; Kang 2003).

Structural realists assume that the international system is anarchic, and that states’ supreme aim is to survive and pursue power in this system (Waltz 1979). The fast increase of one state’s capabilities will naturally trigger fear in other states in such a system. Thucydides attributed the
root cause of the Peloponnesian War to the fast rise of Athens and the fear that it triggered in Sparta. This is mainly the theoretical base of the “Thucydides’s trap” mentioned above (Allison 2017). Some scholars, thus, believe China’s spectacular increase in its capabilities and the U.S. fear stemmed from this change will result in serious conflicts between the two states (Bernstein and Munro 1997; Friedberg 2011). Offensive realists further posit that the best way to ensure a country’s survival is to gain as much power as possible and to become the regional hegemon (Mearsheimer 2001). According to these theories, the preferred strategy for the United States would be to suppress China’s rise and to stop China from becoming the hegemon in the Asia-Pacific region. Meanwhile, becoming such a regional hegemon and pushing the United States out of Asia would serve China’s national interests (Mearsheimer 2006). Therefore, an irreconcilable conflict exists between the goals of the United States and China, which will most likely lead to severe security competition and confrontation in the future.

The power-transition theorists anticipate that the likelihood of conflicts peaks when the capabilities of a fast-rising great power approach approximate parity with those of the hegemon (Organski 1969). They also tend to believe that the rising great powers are not satisfied with the status quo and thus are inclined to challenge the order maintained by the hegemon (Chan 2008). According to the ICP report mentioned earlier, China’s economy was already 87 percent of the size of the U.S. in 2011 (BBC 2014b). Though China is militarily weaker than the United States at present, its impressive increase of defense budget has made the second largest defense spender, behind only the United States (SIPRI 2019). China’s recent strategy of the “One Belt, One Road initiative” and the establishment of the Asian Infrastructure Investment Bank (AIIB) was largely interpreted by many as the evidence of China’s dissatisfaction with the current US-led international
order (Raby 2015). Together with the realists, power-transition theorists also bear in mind a pessimistic future of US-China relations.

The proponents of the liberal institutionalist theory are more optimistic about the future relations between China and the United States. They argue that serious conflicts between the two countries are not inevitable (Ikenberry 2008; Nye 2011; 2015). First, they admit that though the increase of China’s capabilities is spectacular, China cannot come abreast with the United States in many areas, such as military power and soft power, in the foreseeable future (Nye 2015). Second, nuclear weapons change the game of great power politics. Serious conflicts or war are unlikely between nuclear powers today. Rising great powers cannot use war as a tool to overturn the existing international system as past challengers may have (Ikenberry 2008). Third, the current world order is “open, integrated, and rule-based”, which is “easy to join and difficult to overturn” (Ikenberry 2008: 24). On its way to a great power, China does not just face the United States; it faces the Western-centered international system. Even if China can overtake the United States, it cannot overturn the current world system. Therefore, Ikenberry argues, the current international order can largely accommodate China’s rise and serious conflicts can be avoided between the United States and China (2008).

Besides the above-mentioned theories focusing on materialist and structural factors, some scholars have proposed diverging interpretations on the rise of China with focused attention on China’s distinctive culture. Huntington (1993) warned against an alliance between Islamic and Confucian civilizations, which could constitute the fundamental threat to the Western values. He hypothesized that future conflicts would mainly come from differences between civilizations. China is not only a nation-state, but also represents a distinctive civilization, which is very different
from that of the United States. These differences are alleged to have brought China and the United States into a “new cold war” (1993:34). China is exporting nuclear and military technologies to Islamic countries to turn against the Western civilization. In Huntington’s understanding, conflicts between the United States and China seem highly likely in the future.

Johnston argued that though there is not enough evidence to show that China is a revisionist power, it has “exhibited a tendency for the controlled, politically driven defensive and minimalist use of force that is deeply rooted in the statecraft of ancient strategists and a worldview of relatively complacent superiority” (1995:1). In Mao’s era and beyond, China has demonstrated a “relatively consistent hard realpolitik or parabellum strategic culture” (1996:217). Though recently Johnson (2008) believes that China has largely socialized itself into the international community by participating in international institutions. At the same time, Beijing’s late assertive actions in East and South China Seas do not necessarily mean that China is undergoing a fundamental change in its foreign policy making. Johnson’s new arguments do not necessarily negate the possibility of a powerful and revisionist China in the future. In his understanding, the parabellum strategic culture deeply rooted in China’s long history is a constant variable and it persists into post-Mao times in China’s foreign policy making. Following this logic, it may be safe to conclude that China’s relatively restrained and status-quo tendency today does not give us any reliable prophecy that it will remain so, when one day China’s power is comparable to that of the United States or even surpasses it.

Kang (2003) offered a contrasting argument about China’s rise. He believed that an increasingly powerful China is preferable to peace in East Asia. He mainly argued that most current international relations theories are largely derived from the European experience and thus do not
get Asia right in their analytical frameworks. In analyzing China and its relations with neighboring countries, we need to look at the different history that Asia had come through. Historically, a powerful and stable China was a reason for order to be preserved in Asia while a weak China has often led to Chaos in the region. Against the prediction of many realists, some Chinese neighbors are using a bandwagon strategy when China rises quickly in recent years. He then argues that we do not have to fear a strong China on the way ahead. It will only contribute to the peace and order in Asia (2003).

Recently, there are some interesting studies focused on how Chinese leaders’ ideational factors can affect China’s conflict behavior and foreign policy making. Some political psychologists have used content analysis to examine the linkage between Chinese leaders’ beliefs and foreign policy making. They argue that Chinese leaders, with the exception of Mao, have not shown revisionist tendencies (Feng 2009; He and Feng 2013). Li (2013) argues that Chinese leaders’ worldviews have significantly changed from a Hobbesian one in Mao’s reign to a Lockean one when China became increasingly integrated into the world system. This shift in leaders’ worldviews has softened China’s preference for violence.

Literature on China’s rise has become increasingly prolific since the end of the Cold War. The above-mentioned theories and arguments only represent those that the author thinks are the major and most important ones. They provide truly valuable perspectives on one of the most important tendencies of international politics in the 21st century. However, they fail to explain the inconsistencies between their predictions and recent developments in international politics surrounding China’s rise. The realist theories seem to offer a robust explanation for the increasing strategic distrust between the United States and the PRC with the latter’s increasing power, but its
prediction of a balancing coalition does not occur in real life. While highly influential in conflict studies, the power transition theory does not tell us much in what to expect regarding US-China relations beyond saying that tensions should be high. Also, it does not provide a satisfactory tool to measure intentions. Some scholars argue that China does not show serious revisionist intentions, though it should do so as expected by power transition theorists (Johnston 2003). Liberal institutionalist theory provides insights on why China may have become less hostile in the post-Mao era, but it fails to tell us why and how China is changing and embracing global institutions.

The realist theories seem to offer a superficially powerful explanation for the deteriorating relations between China and its neighbors such as Japan, Vietnam and the Philippines, as China rose quickly in recent years. At the same time, scholars often regard the high-profile U.S. “pivot to Asia” policy and the closer relations between the United States and China’s neighbors including those above-mentioned countries as well as India, Australia and even Burma, as an indication of formation of a balancing coalition against China (Mearsheimer 2014). However, a deeper look at what has actually happened may raise many puzzles that the realist theories cannot answer.

First, even Mearsheimer (2014) himself admitted that most of the troubles were initiated by China’s neighbors, not China itself. China was long regarded as “the high church of realpolitik in the post-War world” (Christensen 1996: 37). In realist logic, growing capabilities will result in more coercive behavior (Morgenthau 1948 [1978]). China should become more coercive when its capabilities increase rapidly in recent decades, but Beijing appeared to be more violent in Mao’s era when it was materially weaker than in the post-Mao years.

Second, many Chinese neighbors actually ameliorated their relationships with Beijing in the last decade. Russia is forming a “quasi alliance” with China recently in order to balance against
U.S. and European pressure in Europe (Wu 2015). Other countries, including some U.S. allies such as South Korea, Singapore and Thailand, significantly improved their bilateral relations with China lately. Even India and Australia, the two supposedly core members in the balancing coalition, also improved their relationship with China. After Duterte was elected President of the Philippines, Manila abruptly changed its foreign policy towards China and chose to cooperate rather than confront the latter in the territorial dispute in South China Sea. When China proposed to establish the AIIB in 2015, all of U.S. allies in Asia except Japan joined as founding members of the organization. Therefore, it is not safe to conclude that a balancing coalition against China is forming.

These contradictory puzzles mainly stem from the realist theories’ assumptions. First, structural realist theories emphasize international structure but neglect domestic factors, which may constitute their major flaw. China’s recent assertive rhetoric and stance towards its neighbors engaged in territorial disputes are most probably targeting at its domestic audience. Christensen argues that “Beijing's new, more truculent posture is rooted in an exaggerated sense of China's rise in global power and serious domestic political insecurity. As a result, Chinese policymakers are hypersensitive to nationalist criticism at home and more rigid -- at times even arrogant -- in response to perceived challenges abroad” (2011:54). Therefore, China’s assertiveness may not actually reflect a major foreign policy change but rather an effort to appease an increasingly nationalist and confident domestic population. Second, structural realist theories assume a zero-sum game between the rising and the dominant great powers. However, China’s burgeoning capabilities do not necessarily translate into decreasing U.S. influence in Asia. China’s increasing relations with its neighbors do not harm U.S. influence in these states. Countries such as South
Korea and Singapore still remain largely dependent on U.S. military protection. China seems not interested in assuming these responsibilities. Also, it might be unreasonable to assume that China wishes to push the United States out of Asia at the moment. If the United States retreats from Asia, the first direct threat China will face is a possibly nuclearized Japan.

In addition, if the United States retreats from Asia, China will bear the whole costs of securing its long trading route along the South China Sea, the Indian Ocean and all the way through to Europe.\(^3\) A weak America is definitely not in China’s interests because it probably means that China will have to shoulder up more responsibilities of protecting this international waterway. In this sense, China is now partly free riding on the public goods the United States provides in maintaining a relatively safe trading route from the Mediterranean to the South and East China Seas.\(^4\) Even if China becomes capable enough to defend that route in the future, it would still serve China’s best interests to share the costs of maintaining a stable global order with other great powers. Therefore, there is little evidence showing that China does not like the United States to play a positive role in Asia in the foreseeable future.\(^5\)

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\(^3\) China’s navy started its escort missions in the Gulf of Aden in 2008 and has maintained such military existence since then. China also built a military base in Djibouti to support these military missions. China has also rented ports in Pakistan and Sri Lanka, which caused increasing geopolitical concerns in India. China may not be willing to pay such costs to secure the trade route while it can freeride with the U.S. military presence in the region.

\(^4\) China’s building of artificial islands in the South China Sea caused serious objection from both ASEAN countries and other great powers such as the United States. In my opinion, such measures were designed by Beijing to appease domestic nationalistic moods as well. In recent years, China has ceased to make such provocative moves.

\(^5\) China of course does not like the United States to involve in the Taiwan issue as well as in its disputes with other Southeast Asian countries. But this does not mean China wants the U.S. to leave the region totally.
The power-transition theory has “offered a leading analytic perspective and a robust research program” in all the generalizations about the rise and fall of great powers (Chan 2008: 2). However, it does not provide a convincing and satisfactory explanation for a possible power transition between the United States and China. First, power-transition theory does not give a specific and precise measurement of national power (Chan 2008). In assessing China’s national power, GDP is always used to indicate that its capabilities are approaching parity with those of the United States. However, considering China’s large population (four times that of the United States) and its massive land area (similar to that of the United States), it is not surprising for China to reach parity with the United States because its productivity level only needs to reach a fourth of that of the United States. Other measures, such as the Correlates of War (COW) project’s Composite Index of National Capability (CINC) index in the National Material Capabilities (v5.0) data set, sometimes inflate some states’ power and are not sensitive to economic change in some cases (Chan 2008: 12). For example, if measured by CINC, China surpassed the United States as the “most powerful” state in 1996. Most scholars may not agree on this point. In many areas other than the gross economic volume, China lags far behind the United States, such as in military capabilities, technology and innovation, soft power, number of allies and so on. Seriously speaking, one can hardly say that China is approaching parity with the United States in overall capabilities (national power).

Second, the power-transition theory cannot reliably measure the rising challenger’s satisfaction level with the current order. In addressing the anomaly of a peaceful power transition between the United States and Great Britain, power-transition theorists were believed to judge too easily that the United States was more status-quo oriented than other rising states (Wilhelmine
Germany, imperial Japan, Soviet Union, and China today) (Chan 2008: 30). The United States was actually regarded by the British elites as a revolutionary challenger to the status quo of the late 19th century. The two states were also involved in several acrimonies and the United States largely pushed the influence of other great powers (Great Britain and Spain) out of the Western Hemisphere as claimed in the Monroe Doctrine. The United States gained “seven times more colonial territory than imperial Germany” from the late 18th century to the early 19th century (Chan 2008: 28). Therefore, it is rather unreasonable to say that the United States was a more status-quo power than Germany. Regime similarity and cultural bonds are also not sufficient to assert that United States should be more status-quo oriented. Great Britain also accommodated other rising challengers such as Japan and Russia, who shared no regime similarity and/or cultural linkage to Great Britain. In Chan’s (2008) opinion, it is rather Germany’s geographical proximity to the British Isles that made Great Britain pick on Germany as its main rival and choose to appease the other great powers in the rest of the world. Therefore, the revisionist/status-quo intentions of the rising challengers were less relevant in deciding peace and war between the hegemon and the challengers.

Third, power-transition theorists cannot simply assume that the dominant power is satisfied with the current international system and remains passive in anticipating an incoming power transition (Chan 2008). As Gilpin argued, the hegemon could launch a preventive war to defuse any potential threat when it still possesses military advantage as compared to the rising challenger (1981: 191). Historian Lanxin Xiang also believed that it was the United States (during George W.
Bush’s first administration) rather than China that exhibited a revisionist impulse (2001). He also attributed the reason of the breakout of WWI to British strategic misunderstanding on Wilhelmine Germany and its unnecessary preemptive measures against the rising authoritarian power (Shambaugh 2001).

The institutionalist theory offers a good explanation on why a more integrated China into the international system was more peaceful in Deng’s era than in Mao’s. However, some large-N studies suggest that China’s increasing economic interdependence and participation in international organizations have had little or no effect on China’s militarized conflict (Xiang, Primiano and Huang 2015). Empirical evidence seems to support this argument. Increasing trade interdependence between mainland China and Taiwan did not prevent the 3rd Taiwan Strait Crisis in 1996 (Zhao 1999). Also, the fast growth of trade between China and its neighbors in recent years has not stopped these countries from falling into security conflicts and soured bilateral relations with China. For example, the Sino-Japanese relationship was popularly dubbed as “cold politics hot economics” (Koo 2009). The Japanese Prime Minister Shinzo Abe even compared this relationship to the UK-Germany one before the outbreak of WWI (BBC 2014a). The Sino-Philippine relationship seriously deteriorated when the two sides had military standoff in disputed areas in South China Sea and Manila finally filed that dispute to an international tribunal in the Hague for arbitration against Beijing (The New York Times 2016). Therefore, trade

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6 The Iraq War started in 2003 is a good example of such revisionist anxieties in Washington. Since the Trump administration came into power, such revisionist anxieties became more obvious. The U.S. retreated from several international organizations and treaties that it had led to build, such as the World Health Organization. It also started several rounds of offensive “trade wars” against its major trading partners including China.
interdependence and joint membership in international organizations alone might not be adequate to predict China’s peaceful behavior towards other countries.

Huntington’s clash of civilization theory provides an alternate explanation for potential conflicts between China and the United States. However, the cultural difference seems not adequate to predict conflict. The U.S.-Japanese close alliance offers a good counter example that conflicts may not mainly occur between civilizations. Also, recent conflicts between Russia and some former Soviet republics (e.g. Georgia and Ukraine) show that serious conflicts can also occur within the same civilization. In addition, Vietnam is regarded as a member of the Confucius civilization, but clashed with China in recent territorial disputes. Finally, we do not see a closer coalition between the Confucian civilization and the Islamic civilization to balance against the American influence in the world as predicted by Huntington. Instead, China voluntarily cooperated with the United States in the latter’s war on terror after the 9/11 terrorist attacks.

Johnston’s strategic culture argument gives similar evidence for a more conflictual China (1995; 1996). In Mao’s time, China fought against the United States in Korea, and against the Soviet Union and India in respective territorial disputes. It fought the United States again indirectly in Vietnam and went to war with Vietnam in 1979. After that, China has not engaged in any warfare. It largely pursued a strategy of “peaceful development” (Xiang 2001). If the parabellum strategic culture is constantly exhibited in China’s leaderships well beyond Mao as proposed by Johnston (1996), then why has China become more peaceful since Mao’s time? Johnston’s depiction of China’s “cultural realism” is largely a constant term. How can a constant explain the variance in

7 In my view, China’s close relationship with countries such as Iran and Sudan was mainly driven by China’s resource needs, not by their common grounds of anti-Americanism.
China’s conflict behavior since 1949? If some other variables are more important to explain this variance, then strategic culture remains a weak variable to predict China’s conflict behavior.

Feng’s (2009) and Li’s (2014) research strongly suggests that China’s conflict behavior is closely related with Chinese leaders’ change of worldviews. These studies offer us an important angle that PRC’s foreign policy making might have experienced important evolution in its history, which rightly challenged Huntington and Johnston’s prediction on China. They also filled the gap left by the structural theories, which largely neglect unit-level analysis. However, following their important contribution, questions on further thinking should be asked: what may have contributed to those ideational changes in China’s leaderships? Are those changes only sporadic and individual differences? Or do they reflect systemic, temporal and generational disparity?

Ideas do not come from nowhere. As the French philosopher Helvétius argued in *De l’esprit* that “our ideas are the necessary consequence of the societies in which we live” (Helvétius 1807: 114). The social evolution paradigm stresses that “material forces came before ideational forces and that ideational forces cannot operate totally independently from material forces” (Tang 2010: 34). Recently, some IR scholars also proposed that an evolutionary thinking should be applied to analyze international politics (Tang 2010). Indeed, as Feng’s (2009), Li’s (2014) and He and Feng’s (2013) studies have shown, Chinese leaders’ perception about the outside world has experienced a fundamental change in recent decades. These changes coincided with the rapid socioeconomic change taking place after Deng Xiaoping’s economic reform starting in the late 1970s.

In the last three decades, China has shifted from one of the poorest countries to the world’s second largest economy. It was isolated from either the Capitalist or the Socialist camps in the Cold War era, and sometimes from both (after the Sino-Soviet split in late 1959s to Nixon’s first
visit to China in 1972). It largely integrated into the Western-centered international system in the post-Cold War time by joining the main intergovernmental organizations. Its economy evolved from a rigid centrally planned economy with little connection with the Western economy to a market economy deeply fused together with the world economy. China is now the largest trading nation. It attracts more foreign direct investment than any other single nation. When Mao died in 1976, only 20% of China was urbanized. By 2012, more than half of the Chinese population was living in cities (Joseph 2014: 8). According to the United Nations Development Program, between 1980 and 2012, China’s life expectancy at birth increased by 6.7 years, and mean years of schooling increased by 3.8 years and expected years of schooling increased by 3.3 years. China’s per capita gross national income (GNI) increased by about 1,416 percent during this time period. Between 1980 and 2012, China’s Human Development Index (HDI) value increased from 0.407 to 0.699, an increase of 72 percent, or an average annual increase of about 1.7 percent. In 2013, China ranked 91 in a total of 187 countries/regions and was among the countries of high human development (UNDP 2014).

Accordingly, a prolific literature has contributed to the topic of social change and transformation happened/happening in China in the post-Mao era (e.g. Cao, Zhong and Liao 2010; Vogel 2011; Li 2012). However, according to the author’s knowledge, these important socioeconomic transformations are either underestimated or neglected by IR and China scholars seeking to explain China’s conflict behavior and foreign policy making.

Therefore, past literature seems inadequate to address the implications of the great transformations that have occurred in China in the last 30 years. It cannot give us a satisfactory answer to the question of why China largely remains peaceful after 30 years rapid economic
development. Definitely, there must be something not captured by the past literature. This missing gap can be huge and may cause a misreading of Chinese society and/or misjudging China’s foreign ambitions as it rises phenomenally.

**Purpose of the Study**

This dissertation aims to fill the gap left by past theories and arguments and joins the debate of China’s rise and its deep implications for world politics in the 21st century. More than 70 years ago, the Hungarian-American political economist Karl Polanyi proposed that the modern market economy and the modern nation-state should not be studied separately. Rather, they should be regarded as a single human invention, which he called the “Market Society” ([1944] 2001). He argued that the rise of the market in modern history fundamentally reshaped human society. In “Market Society,” people’s economic mentalities were totally changed. Before the coming of the market economy, people’s social relationship was built on redistribution and reciprocity. The market played a minor role in human economic life. However, in “Market Society,” people were able to engage with each other by trading equally in the market and became rational utility maximizers. The great transformation thus was triggered to take place by the powerful modern state which wished to push changes in social structure to suit the competitive capitalist economy. He emphasized the greatness of the transformation because it brings both fundamental changes to human institutions and human nature (Polanyi [1944] 2001).

Political economist Michael Mousseau also recognizes the fundamental differences between “non-Market Society” (in his words “status economies”) and “Market Society” (in his
words “contract-intensive economies” or “contractualist economies”) and further argues that these differences can have far and deep social and political implications. Because of the different ways of allocation of resources in these two different types of societies, people develop contrasting approaches to interact with each other. New political values and culture thus are formed in such advanced-market contractualist economies. Finally, these socioeconomic conditions and political values can result in fewer conflicts within as well as among nations with contractualist economies (Mousseau 2009, 2012, 2019).

According to the economic norms theory (ENT) that Mousseau develops, most developing countries today have status economies, where individuals are heavily dependent for their economic security on group leaders and personalist exchanges within groups. In these economies, because resources are mainly allocated through gift and reciprocity among in-group members, individuals have no obvious interests in the welfare of strangers outside of the group. Political forces compete for state power in order to secure their own in-group interests. Political struggle is more zero-sum-like because the total resources of a society are relatively limited and the more one group achieves naturally means the less other groups could reap. In contrast, in advanced-market contractualist economies, resources are allocated mainly through the market. The prosperity of the market serves the basic interests for all individuals who are economically dependent on the impersonal marketplace and engage with others through various contracts on daily basis. Therefore, the socioeconomic order is more positive-sum-like, because the chances of doing well are enhanced.

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when everyone else is doing well (Mousseau 2009).

Mousseau further argues that due to the positive-sum-like nature of the contractualist market economies, a new and distinctive political culture comes into shape. It has four core aspects in its value system: 1) individual freedom (so everybody has freedom to contract); 2) equality in law (so individuals engaged in contracts will not be bullied or manipulated by others and thus trusting of contractual commitments); 3) market prosperity (so everybody economically dependent on the marketplace will benefit from this); 4) the democratic rule of law (so the state can be checked to impartially enforce contracts and maintain a fair and just order of the market) (Mousseau 2009).

For nations which transitioned from status economies to contractualist economies, the labor market usually becomes robust, which means the majority of the population now engages with strangers in contracts to secure their basic economic benefits in the marketplace rather than depending mostly on in-group redistribution and reciprocity. Therefore, they are most likely to value personal freedom, market growth and the democratic rule of law. This fundamental change will create a highly stable feedback-loop of markets and democracy, because elected governments are now under continuous pressure from the majority of the market-dependent population to impartially enforce contracts as well as to promote economic growth. Governments therefore often adopt interventionary policies and promote foreign trade, which can help sustain the robust labor market and continuing economic growth (Mousseau 2009, 2013).

The positive feedback-loop of markets and democracy creates a perfect peace within and among contractualist economies. Within nations, everybody’s accessibility to the market and common interests in the ever-lasting market growth negates the known necessity and incentives of
wars, which mainly aimed to gain control of more resources. This means there is less to fight about; surely less worth dying for. Insurgency in such societies seems unlikely because it needs wide and long-term civilian support, which is only reliable in status economies where civilians conform to groups (Mousseau 2012b). Popular support for terrorism could not sustain either in such societies because the indiscriminate terrorist attacks on civilians are clearly against the social norms and political values of these societies—to value the freedom and welfare of the strangers. Extremist ideology has little market in such societies because such ideology normally depends on in-group/out-group and zero-sum psychology of a large population in status economies (Mousseau 2002-03). Among nations, war between contractualist market economies is not possible, because it is economically irrational and politically incorrect to compete for resources and control through bloody wars. Rather, every such nation now can secure certain resources through international trade and favors market growth, economic welfare and security of all equal and law-abiding others (Mousseau 2009, 2019).

There is pervasive empirical evidence supporting economic norms theory: there is no record of civil war or lower-level insurgency in any nation with a contract-intensive economy (Mousseau 2012b); there is no report of a single death in battle between two contractualist countries (Mousseau 2009); and contract-intensive nations have not produced any terrorist groups which enjoy popular support (Krieger and Meierrieks 2015). Contract-intensive economy is so far the strongest known predictor of civil and international conflict and the economic roots of terrorism. Therefore, economic norms theory becomes a best candidate theory of predicting the PRC’s conflict behavior because China experiences “the fastest sustained expansion by a major economy in history” (World Bank 2019) in the last four decades after Deng Xiaoping’s market
China’s decisive shift from a socialist planned economy to a market economy can have such deep and profound social and political implications. Market forces emerge as strong causal factors for many social and political changes in China today. At the same time, Chinese leaders’ perceptions of the market also experienced some significant changes. The market was regarded as basically a “capitalist” label during Mao’s China, but today it is believed to play a “decisive role in resource allocation” (Reuters 2017a). If empirical evidence supports the expectations that China has crossed the tipping point of a contract-intensive economy, then we might be able to safely predict that a rising China will largely remain peaceful. Even if China cannot qualify itself as a contractualist economy today, the increasing importance of the roles played by the market in allocating resources in the economic life of the Chinese nation will significantly change the Chinese population’s interests and preferences. The political values highly respected and upheld in contractualist societies are also likely to become more popular and prevalent in China as its leadership vows to deepen and strengthen market reforms (Reuters 2017b). Therefore, the pacifying effect of the market economy will continue to play its role and we can maintain a cautious confidence that such a rising China will also largely stay peaceful. By studying the economic, social and political changes happened and happening in the post-Mao China and comparing them to their counterparts in Mao’s era, this dissertation aims to establish a link between these changes and China’s more peaceful behavior in the last few decades.

This great transformation taking place in China will no doubt have a significant impact on the relationship of the two biggest economies of the world today. The dissertation also tries to use the findings of this study to deliver a prediction of the most important bilateral relationship in the
21st century and provide useful insights for policy makers on both sides. In this way, the potential risk caused by the fast rise of China may be curtailed by the fundamental common interests shared by both; and the US-China relationship can be more properly managed by the leaders on both sides. Thus, the future Sino-American relationship can bypass the “Thucydides’s trap” and avoid the tragedy of great power politics.

**Research Question**

In order to answer the questions posed at the beginning, one needs a theory as well as past empirical evidence of how China gets along with other states in order to assess what China is. The economic norms theory (ENT) is applied to provide a major theoretical framework for a whole new understanding of the link between China’s economic change and its foreign behavior. China’s past conflict behavior serves as good basis for both explaining its way of interaction with other states and predicting its future behavior. Since its founding in 1949, the PRC has been thought to be a conflict-prone state which was not hesitant to use force in foreign policy crises or interstate disputes (Johnston 1996, 1998). However, when China gradually integrated into the current international system in the post-Mao years, it pursued a “peaceful development” strategy that has largely avoided serious conflicts with other major powers.

As discussed, economic norms theory predicts that states with contract-intensive economies do not fight against each other. It also suggests that an increasingly contract-intensive economy will greatly alter China’s basic interests as well as foreign policy preferences. The overarching research question of the dissertation thus asks whether China’s marketization, as
gauged by its increasing contract intensity, can have a significantly pacifying effect on its conflict behavior. The major independent variable is China’s contract intensity of national economy (CIE).

Drawing on the ENT, the dissertation will argue that China's economy, after about 30 years’ fast development and transformation under the name of “socialist market economy”, is becoming increasingly contract-intensive, like the advanced Western economies. This constant shift to a contract-intensive economy (CIE) changes China’s national interests towards favoring global order and maintaining the global marketplace. It also promotes an interest in the welfare of all other nations that engage in the global market, simply because these nations are customers of Chinese products. Therefore, the more important sub-research question here is whether China’s contract-intensive economy has affected China’s behavior in its militarized disputes with other states. As predicted by ENT, in nations with advanced markets, individuals have interests in the state promoting the market by enforcing contracts impartially, stimulating market growth and protecting the freedom to contract (Mousseau 2002, 2013). The economic change in such societies will also bring significant social, political and cultural changes. It also follows that nations with advanced markets have more interests than others in promoting the prosperity of the global market. Therefore, states’ interests and preferences can largely change their behavior in foreign affairs. The dissertation hypothesizes that the higher contract intensity China’s market economy becomes, the more interests it will have in maintaining a peaceful international environment and prosperous global market, and therefore China will be less willing to use force against other states.
Structure of the Dissertation

The dissertation will include seven different chapters. The first is this introduction chapter. The second chapter introduces the economic norms theory and explains why this theory is useful in observing China’s conflict behavior. The third chapter will document the market-oriented changes that have happened in China since its reform and opening-up and discuss the question whether China today has crossed the threshold and become a contractualist economy as defined by ENT.

Chapters four to six are designed to document changes on three different levels since China’s market reform started 40 years ago: individual, national/social, international. Chapter four traces the change of Chinese top leaders’ worldviews from Mao Zedong to Xi Jinping and explores how rising market economy might have contributed to the generational differences of their views towards the outside world. Chapter five documents the socioeconomic transformations in the reform era on regional and national level. This chapter serves the major objective of discovering shifts in social norms in China in the reform age as expected by ENT. It provides empirical evidence that China actually is transitioning to a contractualist society. Chapter six analyses the change on the international level. It is the main chapter to test the hypothesis. It adopts a large-N regression test to see whether the increase in China’s contract intensity can help to tame China’s conflict behavior in its militarized disputes with other countries.

The last chapter is the conclusion and discussion part of the dissertation. It will conclude with an assessment of the contribution and limitation of this study. It will also discuss the possible outcome of the US-China relationship in the years to come. The discussion will answer the
questions posed at the beginning of this study, which is the most important drive that made me decide to do research on this topic.

Methodology and Procedure

I will use both qualitative and quantitative research methods in this study. In the first three chapters, a descriptive and qualitative method will be adopted. This method does best with introductory parts of the research, in which I mainly introduce the theoretical background and the economic and social background of the great transformations that have occurred in China in the last three decades or so.

In chapter four, I adopt a content analysis tool to observe change in leaders’ worldviews through their speeches. As known to many analysts, China’s foreign policymaking is largely closed to the public and little is known so far about how different foreign policy choices are made (Feng 2009). Therefore, the content analysis of Chinese leaders’ speeches and descriptions of Chinese government’s perceptions about the outside world in China’s official documents can provide observers a unique way to analyze China’s foreign policy preferences. I will adopt content analysis tools commonly applied in political psychology, namely operational code analysis and Leadership Traits Analysis (LTA), to measure Chinese leaders’ worldviews and personal traits by analyzing their speeches and/or written works. As expected by ENT, people in contract-intensive societies show a distinctive cultural difference as compared to those in status societies. Content analysis results will show the generational difference in their worldviews between different generations of Chinese leaders.
In chapter five, I will adopt a qualitative historical comparison method to see the variance in social norms in different time periods. This allows me to observe the effects of the independent variable (contract intensity) on the dependent variable (social norms) in the treated group (the reform era), as well as the absence of such effect in the control group (the Mao era).

Chapter six will apply large-N regression models to test the effects of the main independent variable (contract intensity) on the dependent variable (conflict behavior). Some other variables that prior researchers believed may have an effect on China’s conflict behavior, such as “relative power,” “trade dependence,” “territorial claims,” “participation in international organizations” and so on, are also tested in my statistical models. Besides the regression analyses, I also make a detailed observation of China’s conflict behavior change in different time periods recorded in the data of the Correlates of War project’s Militarized Interstate Disputes (MIDs) (V4.3) dataset.
CHAPTER 2: ECONOMIC NORMS THEORY AND CONFLICT BEHAVIOR

As discussed in Chapter 1, prior theories either totally neglect or only partly noticed the biggest single fact taking place in the history of the PRC—the market-oriented development that phenomenally changed the country in economic, social and political spheres since the economic reform started in late 1970s. This neglect of the political economy of the most important fact, in the view of the author of this research, is the major reason that many researchers do not understand China correctly or thoroughly. The economic norms theory links a state’s domestic political economy to its foreign behavior and offers a powerful explanation of the causality from contract intensity to peace, and thus may also offer a reasonable explanation for the result of this single most important fact happening in China.

This chapter will briefly introduce the economic norms theory (ENT) and its explanatory power in analyzing states’ conflict behavior. But before the introduction of the ENT itself, a simple review of the background that this theory originated as well as its path of development is conducive to a better understanding of this theory. The first section of this chapter will trace the development of this theory. Then, it will introduce the theoretical causality between contract intensity and peace as posited by the ENT. The last part of the chapter will discuss the criteria of a good theory and the question why the ENT is useful in guiding the analysis of China’s conflict behavior.
Democratic Peace or Contractualist Peace?

Though the world witnessed tensions, conflicts, and even surrogate wars between the East and the West during the Cold War, a clear fact emerged to attract the attention of most International Relations (IR) students after the sudden disintegration of the Soviet bloc. In the Western bloc, especially in Western Europe where both world wars originated, peace was perfectly maintained among them during the Cold War. The world seemed to believe that liberal democracy was victorious in the competition between capitalism and socialism, and “the end of history” probably was near (Fukuyama 1992). Although some social scientists have observed this “democratic peace” phenomenon long before the end of the Cold War (Babst 1964, 1972; Rummel 1979, 1983, 1985), more political scientists now tend to believe this peace among democracies is not a coincidence. Jack Levy even claimed that “this absence of war between democracies comes as close as anything we have to an empirical law in international relations” (Levy 1988:662; see also Doyle 1986).

It seems that political scientists reached consensus that democracies rarely, if ever, fight against one another, but they could not agree with each other on what might have caused this paucity of wars between democratic countries. There are two major camps of thoughts which try to explain the democratic peace.9 Researchers of the “democratic peace” (DP) camp believe democracy--either as a political institution or political culture should be responsible for the peace among democratic states. While political scientists in the “capitalist peace” camp regard the economic conditions in these capitalist/democratic countries as the major cause of peace among

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9 The term “democratic peace” here refers to the phenomenon observed by most political scientists that democracies rarely if ever fight each other, while the “democratic peace research program” or “democratic peace theories” refer to the school of thoughts which support the causality from democracy to interstate peace.
them. Simply put, theories in the former camp are more “politically deterministic,” while those in the latter camp more “economically deterministic.” The economic norms theory definitely belongs to the “capitalist peace” camp.

Probably because of the sudden and big victory of the democratic West over the authoritarian East at the end of the Cold War, some political scientists naturally accepted political reasons for the democratic peace. Proponents of the DP program firmly believe that regime type is responsible for causing peace among democracies. They mainly offer two explanations for the rarity of conflicts among democratic countries: the structural explanation and the cultural explanation (e.g., Morgan and Campbell 1991; Bueno de Mesquita and Lalman 1992; Morgan and Schwebach 1992; Maoz and Russett, 1993). First, structural scholars propose that the causality between democracy and peace lies in the institutional constraints specific in democracies. In democratic countries, leaders’ decisions in foreign policy are either constrained by the electoral body (Maoz and Russett 1993), audience cost (Fearon 1994; Gelpi and Griesdorf 2001), or opposition parties as well as institutionally shared decision-making power (Morgan and Campbell 1991). Second, the cultural models proclaim that domestic norms in democracies, such as nonviolent norms of competition and preference for adjudication and bargaining to brutal force (Dixon 1994) can be externalized in international democratic-democratic interactions. However, democratic nations are aware that nondemocratic countries do not possess similar norms and thus do not rely on such norms in the interactions with nondemocratic nations (Dixon 1993; Russett 1993, 1994; Rousseau et al. 1996).

Though the DP program quickly rose to be one of the most influential research programs in the post-Cold War years, it also attracted various critics and challenges. From the challengers’ view, regime type is either not sufficient or irrelevant to cause interstate peace. To respond to the
structural explanation of the DP program, critics argue that if democratic leaders are constrained institutionally, they should show similar tendency in the democratic-autocratic interactions as well, but statistics seem do not support such assertion, i.e. there is no clear evidence showing that democracies are more pacifist or less conflict-prone than autocracies in the democracy-nondemocracy dyads (Levy 1988; Spiro 1994; Farber and Gowa 1995; Rosato 2003). To respond to the cultural explanation of the DP theories, critics argue that empirical evidence does not support the hypothesis that democratic leaders take other states’ regime types into consideration during the process of their foreign policy making (Layne 1994; James and Mitchell 1995). Oren (1995) argued that “democracy” is largely leaders’ subjective perception of other states’ regime types. For example, the Imperial Germany was largely regarded by American leaders as a democracy at the end of the 19th century. However, that perception quickly changed before World War I and Germany was perceived as autocracy, even though Germany’s political system did not change much. This suggests that even if leaders do consider other states’ regime types; their considerations could be subjective and volatile.

Some other critics argue that the highly correlation between democracy and peace might be a function of reverse causality (Gates et al. 1996; Thompson 1996; James et al. 1999). Peace (or lack of peace) could be an antecedent to democracy in two scenarios: more peace causes more democracy (Gates et al. 1996)—the diffusion of political power being a result of absence of exterior threat (Thompson 1996); or less peace causes less democracy (Gates et al. 1996)—states involved in interstate wars or conflicts centralizing political power (Thompson 1996). In Thompson’s (1996) words, the DP theorists might have “put the cart before the horse.”
Researchers of the capitalist peace camp not only disconfirm the causality between democracy and peace, they normally propose the capitalist mode of production and role of capitalist markets as causes of peace among democracies. Gleditsch (1992) recognized that a possible third variable may account both for democracy and non-war. Though the term “capitalist peace” was coined by Weede (1996), Bremer first discovered with surprise that states with advanced economies were less likely to engage in wars against each other (1992: 334-336), because capitalism has long been regarded by Marxists and Leninists as a cause of war. A few years after Bremer’s (1992) finding, roughly four different capitalist peace theories emerge to challenge the democratic peace theories, depending on how they define capitalism itself.

Weede (1996) linked the peace among developed countries with trade and free market. The economic norms theory roughly appears at the turn of the new millennium and proposes market-oriented development as the cause of peace (Mousseau 2000). Gartzke, Li and Boehmer (2001) believe financial openness to be the cause of peace. McDonald (2007, 2009) linked peace with the size of government. The other three theories of capitalist peace are similar to the “structural models” mentioned earlier. They observe how states are constrained by the rational calculation of costs and benefits in different economic and political activities (Weede 1996; Gartzke, Li and Boehmer 2001; McDonald 2007, 2009). However, the economic norms theory resembles more to the “cultural models.” Mousseau (2000, 2002, 2009) argues that the market-oriented development could cause a cultural and normative change in states’ perceptions of interests and preferences, which are believed to cause the peace among the developed market economies.

As a relatively new theory, the economic norms theory actually experiences a period of evolution and maturity. In his early publications and doctoral dissertation, Mousseau proposed an
economic norms explanation to the democratic peace: sanctity of contracts and equity among individuals in economically more developed countries may change the social and political norms as well, which would place constraint on the democratic leaders in making decisions in foreign policy (1997, 1998a, 1998b). During this period, he was a proponent of the cultural models of democratic peace. Though he recognizes the importance of economic activities in causing democratic norms, he did not reject democratic norms as part of the causes of democratic peace. Similar to other DP proponents of the time, he tested that the causality between democracy and peace cannot be reversed (Mousseau and Shi 19999). From 2000 to 2002, Mousseau introduced an interaction term between development and democracy and believed that regime type, though not sufficient, was still relevant in causing democratic peace.

Starting from 2002 until around 2007, Mousseau further developed the economic norms theory in two directions: domestic politics and interstate conflict behavior (Mousseau 2000; 2002; 2002-03; 2003; 2007; Mousseau, Oneal and Hegre 2003). In the domestic politics direction, he presented evidence that in highly developed market economies, economic norms caused democratic consolidation (Mousseau 2000) and social abhorrence to terrorism (Mousseau 2003). He further consolidated his economic norms theory in the interstate conflict studies and clearly pointed out that the democratic peace exists only among the states with high market civilization (Mousseau 2000; 2002; 2003; 2007; Mousseau, Oneal and Hegre 2003).

In prior studies, Mousseau was not able to find a good variable to measure economic norms. Instead, he used “development”, which was measured as GDP per capita (logged), as a replacement of market prosperity (Mousseau 2000: 484-485). In 2008, Mousseau happened to discover a large-N cross-national pooled dataset on life insurance consumption constructed by some economists
(Beck and Webb 2003). This probably is a “great leap forward” for the ENT. As explained by Mousseau, using GDP per capita as a proxy of market prosperity was only a second best choice (2000: 484-485). Countries with high GDP per capita are not necessarily contract-intensive. For example, the oil-rich Middle East countries, such as Gaddafi’s Libya, have high development level if measured by GDP per capita. However, most of these states are typical status societies. Life insurance contracts “directly gauge the causal mechanism of economic norms theory of widespread dependency on the state for the enforcement of non-self-enforcing contracts because they are not likely to rely on personal forms of trust, since the delivery of service is expected only after the death of the policy holder” (Mousseau 2016a). Without surprise, most of the rich Middle East countries seem do not enjoy high standard if measured by life insurance contracting level. Cashman regarded this data application as “rather ingenious” (Cashman 2013:273).

The use of the life insurance data as a direct gauge of contract intensity promoted the development of the economic norms theory, which is also dubbed by Mousseau as “contractualist peace” now. Mousseau and Mousseau (2008) first used life insurance data as a gauge of economic norms (contract intensity) and the study yielded robust results for economic norms causing human rights values. Statistical tests using direct insurance contracting data also show a surprising result that “no fatal militarized disputes occurred between two nations with contract-intensive economies” (Mousseau 2009: 68). While in the democratic nation-years with below-medium life insurance contracting, these states have coincided with status economy, and among these democracies, there is no peace.10 Repeated tests have yielded identical results no matter how conflict is measured:

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10 Democracy gauged in standard form as equal or larger than six of the Polity2 score in the Polity IV data (Marshall, Gurr, Jaggers 2012).
either as interstate crises (Mousseau et al. 2013; Mousseau, Orsun and Ungerer 2013), fatal
disputes, or wars (Mousseau 2009; 2012a; 2013; 2016b). All these tests refer to one proposition
that the contractualist peace may supersede the democratic peace.

After offering powerful explanation for the peace among democracies, in recent years,
Mousseau posits more on the relationship between the contractualist hegemony (the United States
and its natural allies of contractualist states) and the other states in the system. He continues to
generate and test more important hypotheses. Looking at the voting behavior at the United Nations,
he found evidence to support his argument that contractualist states shared more foreign policy
preferences with the United States, the largest contractualist nation at present, no matter what their
relative power is to the United States. However, states with weak internal market tend to disagree
with the United States. Major powers lacking such internal market or status states with more
military or economic powers are more so (Mousseau 2019). These findings pose serious challenge
to realist arguments that states balance or bandwagon based on relative power or perception of
threat (Waltz 1979; Walt 1987). He further argued that only status states have a nascent sense of
insecurity, and “security dilemma” only exists among such states. Therefore, there is no such thing
as “Thucydides’ trap” in international politics today. China has a robust internal market and an
increasing interest in the global marketplace and global order. If the United States understands the
PRC correctly, no serious confrontation is guaranteed (Mousseau 2019).
Status Society vs. Contractualist Society

The cultural explanations of the democratic peace believe that democratic norms are originated mainly from democratic institutional interactions (Dixon 1993, 1994; Doyle 1986; Maoz and Russelt 1992; Russett 1993, 1994; Rousseau et al. 1996). However, the origin of these norms may not rest with democratic institutions, but probably with market prosperity. Classical sociologists long ago observed a distinctive culture of individualism and rule of law linked with developed economic systems (Durkheim [1893] 1933; Tonnies [1887] 1957). Also, among sociologists and anthropologists, it is quite common to assume that economic conditions may influence social values (MacPherson [1962] 1977). Cultural materialism, a term coined by Marvin Harris, postulates that economic behavior that regularized over time may influence, consciously or unconsciously, people’s social values and worldviews (Marvin Harris 1979 cited in Mousseau 2000).

From around mid-1980s to early 1990s, Mousseau conducted several ethnographic researches in various countries, including Soviet Union, China, India, Middle East and many African and Latin American nations. Based on these first-hand experiences about how economic situations may condition human behavior, Mousseau started to propose the economic norms theory to explain the emergence of democratic norms (Mousseau 1998) as well as how market-oriented development may bring both peace and democracy (Mousseau 2000).

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11 For more information on this point, please visit: https://sciences.ucf.edu/news/welcome-to-michael-mousseau/. Last retrieved on October 20, 2019.
The ENT starts with the observation of the different roles of the market in two contrasting political economies: contractualist and status (Mousseau 2000). Mousseau views contracting as the most basic and important economic activity people engage in their social life (Mousseau 2009). In contractualist economies, citizens heavily engage in highly-institutionalized markets for their livable goods and services on a daily basis, while in status economies, people secure their economic welfare not through a robust market, but through exchanges of favor in groups, such as families, clans, ethnic or religious groups. This is not to say that people in status economies engage in fewer contracts. However, they do lack in making a distinctive kind of contracts than their contractualist counterparts: the so-called “non-self-enforcing” contracts (North 1990).

With the advancement of human civilization and expansion of economic activities, barter trade or face-to-face transactions could no longer satisfy the economic needs of the people. More and more people started to engage in “non-self-enforcing” contracts--“those where the commitment of one party does not coincide in time with the commitment of the other” (Mousseau and Cao 2018). Here, the most important issue is the enforcement of the contract, because it is difficult for two strangers in the market to trust each other’s commitment. Who can play the role as a most reliable guarantor of the contract? The answer is the state, because it possesses the highest authority over the territory. Therefore, the state is expected by the population to be a strong and impartial enforcer. A strong state possesses the necessary tools to punish those who do not keep their commitments in contracts. Such a state can also guarantee that any contract be made based on equality and free will, not on coercion. An impartial state enforces contracts with fairness and keeps either party from terror of being bullied (Mousseau and Cao 2018).
In order to hold the state accountable to be an impartial third-party guarantor of contracts, elections become an effective way of securing that for all those engaged in the market (Mousseau 2000). Political elites, once elected, must work hard to promote market growth and enforce contracts impartially in order to remain in office. A political culture of open competition and fair play normally will follow. Such political culture finally consolidates democracy in those market-oriented countries (Mousseau 2000). This is the economic norms explanation of the origin of democracy.

With the development of the robust market, the society gradually forms a culture of respecting personal freedom, equity, and rule of law, because personal freedom and equity guarantees good contracting, and rule of law promises effectiveness and low cost of contracting. Also, personal trust in strangers tends to be high in such market-oriented societies (Mousseau 2000). The populations in such societies also wish the state to promote market growth and regulate the market, because such policies serve their best interests in a prosperous market (Mousseau 2009).

Because people’s economic security is based on interpersonal connections in status economies, they do not have interest in building a strong state. This is why countries with weak markets normally have weak states (Mousseau 2009). In status societies, political elites are usually representatives of different interest groups, and they compete for state power in order to better serve their own in-group interests. The political culture in such societies normally is plagued by heavy rent-seeking, corruption, weak rule of law, ugly even deadly political struggle between different political forces (Mousseau 2009). Because people care in-group interests more than out-group interests, social cultures in such societies are normally characterized with low levels of trust, disregard for equality and universal human rights (Mousseau and Mousseau 2008, Mousseau 2009).
Economic Norms and States’ Conflict Behavior

We understand now how democracy and different social and political culture may emerge in different societies. But how would economic norms affect states’ conflict behavior? Similar contrasts also exist between status and contractualist economies as they do in domestic politics. Since people in contractualist countries have a strong interest in economic growth, leaders tend to rank promoting global market prosperity as their top strategic priority in foreign policy making, because the economic growth in other countries will also increase the prospect of growth in one’s own country. Everyone in the market is better-off when others are better-off. The contractualist states prefer self-determination and equal legal status of each country, cooperation in economic and security issues in order to maintain and protect the international order and ready to stand up to any violations of their fundamental interests—the prosperity of the global market. Therefore, contractualist leaders are more positive-sum minded and cooperation is more easily achieved among like-minded contractualist leaders, hence peace among contractualist states. However, in contractualist-status states relations, status leaders do not share these interests and preferences, therefore the odds of conflict still remain high (Mousseau 2009).

The domestic economic norms and political culture can also influence contractualist leaders’ foreign decisions. For example, self-determination and rule of law are basic norms in contractualist countries and leaders tend to stick to such principles in foreign policy, because violating them normally would undermine the international market prosperity as well. Bullying and control of others are normally not pursued by contractualist leaders. In the long run, such imperialist approach would harm the economic potential of the target country and reversely harm the export and economic growth of home country (Mousseau and Cao 2018).
Leaders of status countries generally lack trust in out-group people. Because they always compete for limited resources in domestic political struggles, they are more zero-sum minded and fear each other. Status leaders are by nature expansionary and conflict-prone, because foreign conflicts or wars may reap rents for their own group and pose costs on out-groups (Mousseau 2009, 2013). Status leaders may also ally with contractualist powers in order to get security protection, access to capital and markets. (Mousseau and Cao 2018).

In recent years, Mousseau posits more on the conflict behavior of the so-called “axial states” (Mousseau 2019). Axial states refer to states transitioning from a status to a contractualist economy. They normally have a developing robust internal market but the old condition of a status economy still plays a role. Therefore, they have more interest in the global marketplace, but are not predictable because there is often internal clash between the old status culture and the new contractualist culture in such societies (Mousseau 2019).

According to the criterion set by ENT, the PRC has not had a contractualist economy yet, but its contact intensity is increasing quickly to a level that is comparable to that of some contractualist states (Mousseau 2019). Therefore, China is a typical example of an axial state. Though axial states are normally unpredictable as contractualist states, but a thorough study on its internal market condition and cultural change may help us understand better what has been happening within the country, hence providing more insight on this important country whose rise may bring critical change to the world politics. This is also the meaning and the reason of this study.
Why is the ENT Useful to Observe China

The discussion of the question “why is the ENT useful to observe China” mainly relies on answers to another two sub-questions: 1) is the ENT a good theory? 2) why the ENT is better than other theories in observing China’s conflict behavior? The following are mainly my answers and thoughts on these two questions.

Why the ENT Is A Good Theory

Scholars of scientific philosophy has long debated the question of what theories are good theories (Lakatos 1970; Vasquez 1997). There are “degenerating” and “progressive” theories in every discipline (Lakatos 1970). There are always “anomalies” out there in the real world that cannot be explained by a certain theory. Former As mentioned above, though the contractualist peace started at explaining the democratic peace, it actually goes beyond that scope and generates a variety of novel nontrivial explanations for many important political questions both in comparative politics and international relations.

If measured by Lakatosian standard (Lakatos 1970), the ENT “can be one of the most progressive problem-shifts a research program can undertake” because it “provides additional explanatory and predictive power, while receiving both corroboration of its novel content and excess corroboration over previous explanations” (Ungerer 2012: 23).

Moore (2001) generalized six criteria to evaluate theories in political science and to determine whether a certain theory is a good theory: first, favored theories should be able to explain past events (postdiction); second, preferred theories should be able to explain more events (generality); third, better theories are those being able to generate more hypotheses (hypothetical yield); fourth,
progressive theories have more explanans and fewer restrictive auxiliary assumptions (degenerative vs. progressive research programs); fifth, a good theory should yield more policy implications (implications); sixth, a better theory is a simpler theory (parsimony).

According to these criteria, the economic norms theory should be favored by students of international conflict and security. First, concerning postdiction, it offers a powerful explanation for the peace existing among some democracies (i.e. contractualist democracies) (Mousseau 2000).

Second, on generality, its advantage is even bigger as compared to rival DP theories. It is not only able to explain democratic peace, but also capable of explaining democratic consolidation (Mousseau 2000), change of social culture (Mousseau 2009), civil violence (Mousseau 2002-03), political culture (Mousseau 2009), interpersonal trust (Mousseau 2009), human rights (Mousseau and Mousseau 2008), so on and so forth. Its breadth of the scope of explanans seems not exhaustive yet as this theory develops. More new meaningful discoveries have been made recently using this theory, such as the connections between economic norms and resource curse (Aytac, Mousseau, and Orsun 2016).

Third, the economic norms theory yields more hypotheses than competing capitalist-peace theories in addressing various topics. Examples include that the theory not only yields hypothesis of dyadic contractualist peace, it can also ex ante predict human rights, terrorism, civil war, and so on. Fourth, the economic norms theory has more explanans to explain the explanandum (i.e. the peace existing among some democracies) than the democratic peace theories. The DP theories cannot explain the anomalies (i.e. no peace) among other democracies (i.e. status democracies). As examined by Ungerer (2012), the ENT is a progressive theory.
Fifth, the ENT yields clear and reliable policy implications. Examples could include 1) stop promoting democracy through pressure and conquest (Mousseau and Cao 2018); provide more economic opportunities for status countries (Mousseau 2009); 3) contribute more public goods to maintain a prosperous world market (Mousseau 2009); 4) to address urban poverty in status countries as a most urgent task for global counter-terrorism (Mousseau 2011).

Sixth, the ENT is a parsimonious theory with only one independent variable—contract intensity to explain various political phenomena both in comparative politics and international relations.

Why the ENT Is a Good Theory to Explain China

As discussed in Chapter 1, most International Relations theories mainly emphasize external conditions and largely neglect internal factors in explaining China’s conflict behavior. This constitutes the major reason for not understanding China correctly or thoroughly. The single most important fact about the PRC in the last four decades is the great economic transformations which have fundamentally changed the country economically, socially and politically. Without understanding the political economy of this most important fact will at least lead to flawed conclusions if not totally wrong ones. Prior theories largely failed to take into consideration such domestic factors.

Considering its theoretical progressiveness as well as its emphasis on domestic economic development, the ENT can provide a powerful explanatory tool to explain the causal chain among China’s market-oriented development, its domestic cultural change and Beijing’s conflict behavior during its phenomenal rise in the past decades. It can contribute answers to various questions
concerning China’s great transformations taking place in recent years such as rise of individualism, rule of law, increasing interpersonal trust, and so on. It can logically explain some puzzles that Realist theories cannot explain, such as why China worked hard to maintain a peaceful and cooperative relationship with the contractualist West even when threat from the Soviet Union was greatly alleviated in the late 1980s and especially after the 1989 Tiananmen Square Incident. It can also explain why China adopts a relatively peaceful and cooperative foreign policy when its capabilities quickly increase in the last two decades rather than pursuing endless power and aiming to push the United States out of the Asia-Pacific region as Mearsheimer (2014) has suggested.

This study will mainly use the ENT as a theoretical guideline in the logic of confirmation to search for characteristics of the PRC that the theory predicts a contractualist state (or a state transitioning to contractualist economy) should have. If I find China has all or most of the important characteristics a typical contractualist state has, then, I can probably believe that China has become or is close to become a contractualist state. In other words, it is more like a popular “duck test”: if it looks like a duck, it walks like a duck, and it quacks like a duck, then, It probably is a duck.12

In the following chapters, I will make detailed observations of China’s market economy development in the last four decades and the fundamental change it has brought to individuals, the society and the state within the PRC. As discussed above, if these social and political changes suggest that China has become a contractualist economy, then we can predict that it will not pose

12 The duck test is a form of abductive reasoning. The term was popularized in the United States by the former U.S. ambassador to Guatemala Richard Cunningham Patterson Jr. in 1950. He used it to accuse the then Guatemalan government of being Communist. For more details, see Immerman (1982).
a threat to the global order. This is the major motivation of this study. I hope to open the “black box” that many prior theories have not done and see whether the internal conditions of the PRC largely conform to the theoretical expectation of a contractualist state. If it does, then we can expect the rise of China will largely be peaceful.
CHAPTER 3: CHINA’S LONG MARCH TOWARD A MARKET ECONOMY

The economic norms theory informs us of the contrasting different norms in contractualist and status societies and contributes the causes of that difference to the diverging economic conditions in those societies—“the degree to which individuals are dependent on making contracts with strangers in the marketplace” (Mousseau 2019: 163). Before I come into details to document any normative changes in the Chinese society, I first examine the change in economic conditions in the People’s Republic of China (PRC) since late 1970s. In the first section, I will briefly answer the question of why China transited from a planned economy to a market economy. I will also discuss whether the party-state is possible and capable to turn into a reliable enforcer of contracts. Second, I will mainly document the economic changes in the field of non-self-enforcing contracts, foreign direct investment and the labor market, all of which relevant to a contractualist economy. These market developments can reliably reflect how much individuals are dependent on the marketplace, thus reflecting the progress of capitalist-market development in China. Finally, I will evaluate and discuss whether China has evolved into a contractualist economy.

Why China Shifted from a Planned Economy to a Market Economy

The economic norms theory usually treats economic change exogenously (Mousseau 2019: 195). In other words, the theory does not answer the question of why some countries evolved into a
contractualist economy while the others did not. Reasons of such economic change can be case-specific and ungeneralizable. Though it is understandable that the economic norms theory does not pay attention to the reasons of economic change, I believe it is an unalienable part of this study to ask why China transited towards a market economy because the reasons could be still at play so far and may stay there long after China becomes a contractualist economy.

China started to reform its Soviet-style planned economy much earlier than most former Communist countries did. Deng Xiaoping and a few other top leaders of the Communist Party of China (CCP) decided to adopt economic reform on the 3rd Plenary Session of the 11th Central Committee of the CCP in December 1978. The CCP was fully committed to transforming China’s economy into a “market economy” on its 14th National Congress in 1992. The ruling party the CCP actually has been an active promoter for China’s transition to a market economy and will remain so in the foreseeable future if nothing dramatic happens. The reason for China’s transition still stays there—the CCP still commits itself to economic reform and opening up. Therefore, without understanding the reason why the CCP started the economic reform, we will not be able to understand why and how market economy could develop so quickly and powerfully in China in the last four decades. Similarly, we will not be able to know whether China can become a contractualist economy in the foreseeable future if we do not understand the impetus behind CCP’s determination for economic reforms. The fundamental driving force behind the CCP’s economic reforms is, in my understanding, all about the legitimacy issue revolving around the CCP.
It Is All about the Legitimacy Issue

Authoritarian regimes normally use repression, legitimation, cooptation or any combination of the three strategies in order to survive (Dickson et al. 2017: 127). No state can govern with pure coercion or cooptation because both could be too costly. Too much repression may also backfire by antagonizing those who were not against the regime. States need to maintain some degree of regime legitimacy in order to rule with relatively low cost (ibid.).

China is the most populous country with the third largest geographic size in the world. To rule such a big country with pure repression is almost a mission impossible. The most repressive dynasties in the Chinese history were actually also the most short-lived, such as Qin and Sui. The PRC could not maintain a totalitarian system as North Korea does because of its size in geography and population. Even in the year of 2010, when the regime’s legitimacy was high because of the national pride peak after the 2008 Beijing Olympics and the 2010 Shanghai World Expo, China still spent more on internal public security than on its military budget (Dickson 2016: 43). Simply put, the CCP must rely on some type of legitimacy in order to remain in power. This is the fundamental drive behind all its domestic and foreign policies.

Max Weber (1984) proposed three different types of legitimacy: traditional, charismatic, and legal-rational. The traditional type of legitimacy includes feudal monarchies ruled by “the divine right of kings.” The traditional Chinese empires’ “mandate of heaven” falls into the traditional legitimacy category. The charismatic category of legitimacy mainly rests on a leader’s personal charisma and quality. The Chinese people’s cult of Chairman Mao Zedong before 1976 was a typical example of the charismatic legitimacy. The legal-rational legitimacy relies on the legality of political procedure and political institutions. Democratic governments, especially
advanced democracies, commonly enjoy a high degree of legitimacy that stems from multiple dimensions. The PRC definitely lacks the legal-rational legitimacy because it is a typical example of “closed political regime” with no genuine competitive elections and most important political positions are controlled by the sole ruling party (Dimond 2002).

When it was founded in 1949, the PRC enjoyed its legitimacy with a combination of the traditional and charismatic types. The CCP proclaimed that all other previous efforts made before its communist revolution had failed to save China from the “century of humiliation.”13 Similar to the dynastic “mandate of heaven,” the CCP enjoyed a self-claimed “mandate of nation”—that “only the CPC14 can lead China, only socialism can save China.”15

The traditional Confucian “mandate of heaven” has a precondition that the rulers must be “benevolent” and must “take well care of the people”. According to Mencius, the ruler has the responsibility to protect the people from suffering. If the ruler becomes corrupt and cruel, a new dynasty with a benevolent ruler can replace the old one for the benefit of the people. This is what some scholars call “sovereign accountability” and ancient China’s version of “right to protect.” (Glanville 2010). The CCP used very similar diction after its victory in the civil war against Chiang Kai-shek’s Nationalist government. Because of the success of the CCP’s revolution as

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13 Such efforts could include reforms made by progressive reform factions within the Qing court, the bourgeois revolutions led by Dr. Sun Yat-sen and farmers’ rebellions such as the Boxers’ Rebellion and the Taiping Rebellion.

14 CPC is the acronym for Communist Party of China. Media and official documents normally use this term while media and academia outside of China usually adopt the Chinese Communist Party (CCP).

15 Xi Jinping’s remarks made during his visit to an exhibition of achievements of the PRC in the past 70 years. China Daily, September 24, 2019. Last retrieved on February 13, 2020 at: https://www.chinadaily.com.cn/a/201909/24/WS5d89133ea310cf3e3556d00c.html
well as the founding of the PRC, Mao Zedong was hailed by most Chinese as the “people’s great savior” in the then popular song “The East is Read” (Biao 2016).

Though the PRC made impressive achievements in industrialization during Mao Zedong’s era, the disastrous failure of Mao’s economic and political policies especially that of the Cultural Revolution had brought the national economy to “the brink of collapse”\(^\text{16}\) when Mao died in 1976. The CCP failed to deliver the well-being of the Chinese people and almost exhausted the Chinese public’s perception of CCP legitimacy, which resulted in a “quasi-legitimacy crisis” of the CCP (Tong 2011: 143).

Since the death of Mao and a few other founding fathers of the PRC, the CCP could not enjoy a charismatic type of legitimacy. It is also not possible for it to have a legal-rational legitimacy. Therefore, to improve the well-being of the Chinese people seemed to be the only way for the CCP to improve the legitimacy of its rule bestowed by the “mandate of nation.” In order to improve people’s well-being, the CCP must strengthen the economic performance.

**Economic Performance and the CCP’s Legitimacy**

The extremely difficult economic situation in the late 1970s finally forced the Chinese leadership to make changes to Mao’s revolution and the Soviet-style command economy. On the Third Plenary Session of the 11\(^{th}\) Central Committee of the Communist Party of China convened in late

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\(^{16}\) This assertion was first made by Hua Guofeng, then Chairman of the CCP, and was echoed by Deng Xiaoping. It was widely accepted as a consensus in 1980s and 90s. However, recently, some scholars doubted this assertion citing economic data during this period (1966-76), in which China’s GDP actually developed at an average annual rate of 6.7%. For more information, refer to Chen 1997.
1978, the party decided to shift its focus from class struggle to economic development. This is a watershed event in the history of the PRC. It marked the beginning of China’s economic reform and opening-up which would deeply change the country and the world as well.

Though the leadership reached a consensus that in order to improve China’s economic performance it is a must to reform and liberalize the highly centered command economy, they actually did not have a clear idea that what specific reforms should be implemented. This was the practice that Deng Xiaoping famously dubbed as “crossing the river by touching the stones” (Sweetman and Zhang 2009).

There were both left wing and right wing divisions in the CCP leadership, like many other political parties. The right wing was represented by Deng Xiaoping whose pragmatism became famous by his “cat theory”—no matter it is a white cat or black cat, as long as it catches mice, it is a good cat, meaning no matter capitalism or socialism, whichever can develop China’s economy should be adopted. The left wing was represented by Chen Yun, CCP’s chief economic policy maker since Mao’s time. Chen allowed only limited liberalization reforms to the Chinese economy but insisted on the mainstream status of the command economy. Market should only play a supplementary role (Bachman 1986).

Similar to the Soviet Union and other socialist states in Eastern Europe, together with economic political liberalization also occurred in China in the 1980s. But as a sharp contrast to other socialist states that collapsed between 1989 and 1991, the PRC finally survived the political challenge in 1989, namely the Tiananmen Square demonstrations, by cracking down the students’ pro-democracy protests with military forces.
The left wing within the CCP blamed economic liberalization for the causes of the political crisis. In the following years, China’s economic reforms stalled, and economic growth rate plummeted (Joffe 2013). The PRC was also isolated internationally. Its honeymoon with the West ended abruptly. Once again, the CCP faced a legitimacy crisis. It was a widely held view among China observers at the moment that “the end of its (the CCP’s) rule is inevitable” (Sandby-Thomas 2011, 2).

In early 1992, Deng Xiaoping made a sudden attack on the left wing by touring to the southern provinces and sending a clear signal to Beijing that whoever was against economic reforms must step down (Zhao 1993). It seemed that Deng and the right wing won the battle. Then, economic reforms were able to restart and later that year, on the 14th National Congress of the CCP, the party made the decision to build China into a “socialist market economy” (Saich 1992).

Once again, China’s economic reform and economic development entered a fast track. Before his death, Deng put Jiang Zemin and Hu Jintao into the top ruling group of the CCP. Both were engineer-turned politicians and were regarded as royal technocrats who would faithfully carry out Deng’s master plans of economic reform and opening up (Shambaugh 2001). In both domestic and foreign policies, the two top leaders faithfully continued Deng’s pragmatic and low-profile strategy. China’s economic performance surprised the whole world. On average, it almost kept an annual double-digit growth in the last thirty years. It is regarded by the World Bank as “the fastest sustained expansion by a major economy in history” one of the few sustained high-speed economic growth in human history (CRS 2019). Within just two decades or
so, China quickly rose from an underdeveloped state to the second largest economy and the biggest exporter of merchandise of the world.

Economic development itself has a significant effect on the CCP’s legitimacy because the Chinese people greatly benefited from the economic development (Chen 2017). Around 800 million Chinese were lifted out of poverty since economic reform and opening up (CRS 2019). The Chinese disposable income increased dramatically. The gross national income per capita grew almost ten times from 2000 to 2017 (World Bank World Development Indicators). Economic development also increased the government’s tax income, which enables the CCP to invest on some ambitious projects. For example, Xi Jinping’s administration was able to start an ambitious poverty-reduction campaign in 2015 and aimed to eradicate poverty in China by 2020 (CNN 2019). This will no doubt further increase the CCP’s support among the low-income Chinese.

Contrary to many China scholars’ prediction after the Tiananmen crisis, the party-state did not fall apart like many other socialist states did after the political crisis in 1989 but had in fact thrived with robust legitimacy and high approval ratings since then, as shown in various surveys conducted in China during the past two decades (Sandby-Thomas 2011; Tong 2011).

A positive feedback loop has formed in China in the reform era: economic reforms promote economic performance; better economic performance increases Chinese people’s well-being; the Chinese people, who benefit from the economic development, continue to support the CCP; the CCP further promotes economic reform and economic development in order to enjoy higher level of legitimacy among the Chinese. This feedback loop rationally locks in a pro-
development and pro-market government. As China’s economic miracle in the last few decades has strongly suggests that market economy could greatly improve China’s economic performance, and better economic performance can reliably translates into higher legitimacy, the CCP would most probably continue to stick to economic reform and economic development in the foreseeable future. This is the fundamental reason that I believe the Chinese economy will continue to transform toward a contractualist economy.

The CCP Being an Impartial Enforcer of Contracts

The economic norms theory corroborates that the state is normally the organization in contractualist economies that can enforce contracts impartially and provide equal protection in the marketplace (Mousseau 2019: 165). Therefore, the state is normally impartial (so it protects all members of the marketplace equally) and highly capable (so it can effectively enforce contracts when necessary) in contractualist economies. Therefore, an impartial enforcer (the state) is the most important necessary condition for contractualist economies. Also, “elections are the most intuitive means for maintaining pressure on the state to steadfastly promote economic growth, provide unyielding equal protection, and act impartially in enforcing contracts” (Mousseau 2019: 165). So, in contractualist economies, democratic institutions and procedures can largely ensure that the state is accountable to be the impartial enforcer of contracts. Two questions arise here: first, in an authoritarian state like the PRC, can the state be pressured to be

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17 This feedback loop should not be confused with the “positive feedback loop” that locks in contractualist economy and democratic rule of law (Mousseau 2019: 165). Since this chapter mainly discusses economic change in China, the question of contractualist economy causing democracy in China will be discussed in more details in chapter 5.
an impartial enforcer? Second, enforcing contracts requires capabilities. Is the CCP capable to be such an enforcer?

First, can the party-state be pressured to be impartial in the market economy? The positive feedback loop mentioned in the last section informs us that the party-state is always pressured by the legitimacy issue. The CCP has a strong willingness to promote market economy in order to improve economic performance and thus maintaining its legitimacy. Since impartiality is a necessary condition for contractualist economy, the CCP must first acquire certain kind of impartiality in order to promote market economy. This means the CCP needs to change its role from an active planner, executer and player in the old centralized planned economy to a new role that helps the development of the market economy. Since the 1980s, the CCP has been making efforts to change the function and role of the government. In the Plan to Deepen the Reform of Party and State Institutions issued by CCP Central Committee in March 2018, the party claimed that “to deepen the institutional reform of the State Council, we must focus on transforming government functions and resolutely eliminate the system and mechanism drawbacks that restrict the market to play a decisive role in resource allocation” (Xinhua News Agency 2018c).

According to economic norms theory, in status economies the ruling group has its own interests that are conflictual with those of the other groups (Mousseau 2009). In other words, the competition for resources between the ruler and the ruled is always zero-sum in nature. In Mao’s time, members of the CCP’s nomenklatura system enjoyed life-long privileges. The danwei (work unit) system acted as agency of the CCP distributing resources to its royal in-group followers the working class in the urban areas. The strict hukou system (house register)
successfully locked poverty in the rural areas and prevented farmers from entering cities (Chan 1996).

When reform started, such restrictions were gradually loosened or just cancelled in many cities (Cui and Cohen 2015). Many workers were laid off by the state-owned enterprises because of the poor performance of those enterprises in the new era. Today, state-owned enterprises are still related with the state but are not playing the role as agents. They have their own interests and must make their own decisions in the marketplace (Zhang 2000). Many privileges of the *nomenklatura* system were also cancelled. Vast majority of the former in-group members now have to rely on the market to get resources. Some former “glorious and enviable jobs” now just become common jobs, such as party and government cadres.\(^\text{18}\) According to a report released in 2015 by one of the biggest job-hunting websites in China and New York Stock Exchange (NYSE)-listed high-tech company Zhaoping.com, more than 10 thousand civil servants and employees in government-related institutions submitted their resume on the job-hunting website within three weeks after the Spring Festival holiday season. This group of civil servants became the most active group among all the job-hoppers registered on the website (Xinhua News Agency 2015).

The state does provide certain kind of protection over the state-owned enterprises. For example, the government prevented foreign and private investment from going into a few industries such as railway, oil, tobacco, electricity, and so on, which the government deems as critical to its security. Other than those, the government has removed barriers for access from

\(^\text{18}\) Even the official diction of these jobs has changed. Now official sources call them “civil servants.”
foreign and private investment. In 2018, the new administration has adopted the so-called “negative list,” meaning otherwise clearly stated on the list, foreign investment can have access to all the industries in China (Xinhua News Agency 2019c).

In economic norms theory, the state is always regarded as a singular actor, probably for the convenience of analyses. In reality, most states have multiple layers of governments. Local protectionism is a common phenomenon in many status and axial countries/regions. Even in contractualist countries, intuitively, the local governments are the main organizations that the majority of population engage with in daily economic and social affairs. Therefore, the farther the government is from the population, the less support it can get. This might constitute the reason of the so-called “democratic deficit” in many contractualist economies such as the United States and the European Union. Several polls done in contractualist states support such an argument (Dickson et al. 2017). On the contrary, several researchers have noticed an interesting phenomenon in Chinese politics: although popular protests have increased in recent years and ordinary Chinese perceive that local government and party officials are corrupt, the central government still enjoys a high degree of legitimacy (Kim and Voorhees 2011; Sandby-Thomas 2011; Tong 2011). We can infer from this interesting fact that the majority of the Chinese currently endorse the overall economic and political system though they have grievances about the local governments which might still protect special interests of certain groups.

The CCP today has more than 80 million members. It has evolved from a Leninist revolutionary party to a popular political party with members coming from almost all walks of life in China. For example, private entrepreneurs with CCP membership had soared to 37.8 percent in 2007 (Li and Lee 2009). The party as a whole has its biggest interest in remaining in
power. For individuals within the ruling party, the state apparatus cannot provide privileges as it did before. In conclusion, it is possible for the party to play a neutral role in enforcing contracts because it is also pressured, and it does not have special interests of a group as a whole other than remaining in power.

Second, is the Chinese state capable enough to enforce contracts and help protect equal members of a healthy marketplace? According to economic norms theory, in contractualist states, the state is not only impartial but also highly capable (Mousseau 2019). The state should possess certain level of violence enough to intimidate or execute those who dare to violate contracts and harm the marketplace. Therefore, the court system and the police force must be trustworthy and strong enough. The state also needs to have enough military capable to protect the population from foreign invasion. Also, elected leaders in contractualist economies would do whatever they can to promote their economies (Mousseau 2019: 165).

China has a long tradition of a strong state as compared to other old civilizations (Fukuyama 2011). During the “century of humiliation,” China suffered from the absence of a strong central government. Foreign invasions and civil wars plagued the nation. The CCP’s strong organizational capabilities finally help it defeat the KMT’s Nationalist regime in 1949. Though the communist/socialist economic experiments almost failed completely in China at the end of the 1970s, the legacies of communist system actually laid some good foundations for market development. Unlike the weak KMT central government which could not effectively control local warlords, the CCP’s political revolution and land reform effectively established its rule over the whole of mainland China, which prepared for an intact national market without obvious internal trade barriers. Also, the PRC is a nuclear power and has enough deterrence to
prevent any foreign invasions. The judicial and police department was capable enough to crack down on any potential attack on the market.

In addition, the CCP’s Leninist party system (also known as the *nomenklatura* system) is highly disciplined and efficient. The CCP’s reform policies, once adopted, could swiftly reach all the way from Beijing to the very grassroots level in a very short period of time. Another merit that this *nomenklatura* system has towards economic reform is that the CCP can easily appoint highly capable and reform-minded officials to those less developed provinces/cities, thus spreading reform experience quickly to the whole of China. This rotation of officials’ assignment to different positions in different areas can also help to prevent or contain local protectionism.

The CCP was also able to make some important and beneficial reforms to the *nomenklatura* system. When it shifted its focus from class struggle to economic development, the party’s criteria choosing officials also changed. Traditional Chinese dynasties practiced meritocracy to select capable officials from the population to help the court maintain effective rule over the vast area of the empire. In Mao’s time, one’s family background and loyalty to revolution were the main standards for picking party cadres. In the reform era, officials mainly get promoted based on the economic performance of their jurisdiction (Rochlitz et al. 2015).

In conclusion, the party-state is theoretically possible and practically capable to be an impartial enforcer of contracts in China. Of course, this is not to say that the party-state is playing the role of a perfect contract enforcer as expected by the economic norms theory. But as long as the mentioned positive feedback loop continues to function, then the CCP’s basic strategies of economic reform and opening up will not change. In the transition from a status to a contractualist economy, there definitely will be confrontations and conflicts of interests because
the old system and its proteges would not retreat completely in a short period of time, because the CCP always tried to maintain a gradual and controllable reform and transition.\footnote{As compared to other former Socialist countries, such as Russia and Eastern European countries, which usually adopted a so-called “shock therapy” during their transition to market economies, China took a gradual and smooth transition path. The CCP normally would do experiment of some reform policies in a few cities. If they turned out to be successful, then the central government expanded them to all provinces. If not, the CCP could just rescind the policies. This was vividly labelled as “crossing the river by touching the stones,” another good example of Deng’s pragmatism (XXX).}

**Market Reform and China’s Contract Intensity**

The economic norms theory uses data of life insurance premium as a major indicator of one economy’s contract intensity. In non-self-enforcing markets such as the life insurance market, transactions normally require third-party enforcement (Mousseau 2019: 163). The higher the volume of such transactions, the better enforcement, hence higher contract intensity. The economic norms theory also believes that contractualist economies normally have a robust and inclusive market where individuals can find a better price for their labor (Mousseau 2019). Analyzing migration data can also help estimate contract intensity of an economy. Also, foreign direct investment serves as an intuitively viable channel to examine a state’s contract intensity as well. Foreign investors normally rely on the destination state’s credibility of enforcing contracts to make their investment decisions. In this section, I will examine China’s economic change in contract intensity from these sides.
The Non-Self-Enforcing Markets

In this part, I will briefly examine the development of non-self-enforcing markets including the life insurance market, the stock exchange market as well as the emergence of the online business in the PRC.

The Life Insurance Market

The insurance industry was mainly dominated by British companies before 1949. The People’s Insurance Company of China (PICC), the first state-owned insurance company, was founded in 1949 after the communists took power and established the PRC (Niu 1994). For a long time, the PICC was the only insurance company to operate in China and its business only concerned a small volume of foreign insurance. From 1959-1979, domestic business especially life insurance didn’t even exist in the PRC (Niu 1994). In a purely command economy like the PRC’s, there was indeed no need for life insurance because the state apparatus takes control of and distribute all resources to every individual.

After the economic reform and opening up started, the insurance market also boomed. The PICC reopened its operation in 1980. The total insurance premiums jumped from only 640 million yuan in 1980 to 24 billion yuan in 1992. Between 1986 and 1992, insurance premium income grew more than 30% yearly on average, while at the same time, the world premium grew only 6-7% on average (Niu 1994). The total insurance premium income in China at the end of 2017 was 8,000 times of that in 1980 (Xinhua News Agency 2018a). China’s GDP at a similar time period, increased about 204 times from 1978 to 2016. The growth of the insurance industry clearly outweighed China’s economic growth.
Figure 3.1: Life Insurance Premium Development in China, 1986-2010

Data source: Beck, Demirgüç-Kunt, and Webb 2010; Wang 2009

Figure 3.1 shows the fast growth of total life insurance premium in yuan (Wang 2009) and life insurance premium per capita in U.S. dollars from 1986-2010 (Beck, Demirgüç-Kunt, and Webb 2010). This vividly reflects the Chinese people’s increasing trust in the neutrality of the state in enforcing life insurance contracts.

In order to meet requirements imposed by the World Trade Organization, the PRC started to lift restrictions on foreign insurers’ access to the Chinese market. In 1992, AIG became the first foreign insurance company to operate in the PRC (Greenberg and Cunningham 2013). Till the end of 2017, there were 71 insurance companies operating in China, among them, 56 were foreign insurance companies. China ranked No. 2 in the world as far as total insurance premium was concerned in 2017 (Xinhua News Agency 2018a).
According to statistics released by China Banking and Insurance Regulatory Commission (CBIRC), the highest regulatory organization of the insurance industry in China’s national government, there were 100.83 thousand life insurance transactions made by all insurance companies in China in the year of 2019, and the total premium income was 2275.4 billion yuan (CBIRC 2020). The ratio between life insurance premiums and GDP, normally known as ‘life insurance penetration,’ measures total premium of life insurance business lines relative to economic activity (Beck, Demirgüç-Kunt, and Webb 2010: 87). China’s life insurance penetration was 2.3% in 2019. The per capita life insurance premium arrived around 236 USD.  

**The Stock Exchange Market**

The stock exchange market is another typical non-self-enforcing market, where enterprises get funding and investors trade shares. It needs strong private ownership protection as well as a highly capable and trustworthy neutral enforcer. Not surprisingly, all the major financial centers with high stock exchange volumes are situated in contractualist economies such as London, New York, Tokyo, Hong Kong and Frankfurt.

The People’s Republic of China closed all stock exchange operations in 1952 when it established the centrally planned economy the same year, because stock market was an embodiment of capitalism and was against the basic principles of a planned economy (Wong and Yang 2009). After the economic reform, the stock market gradually reopened. The Shanghai Stock Exchange and the Shenzhen Stock Exchange launched in 1991 (ibid.). After much debate

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within the party, the CCP finally acknowledged the stock market as “an important part of the national economy” in 1997 (Green 2003: 2). The then President Jiang Zemin said the stock market had become “an essential part of socialist market economy” (ibid.).

Within only about thirty years’ development, China’s stock market has evolved into an important market for investors domestic and overseas alike. By the end of January 2020, the market has attracted more than 160 million registered investors (Xinhua News Agency 2019b). In other words, almost one out of ten Chinese citizens is an investor of China’s stock market.\(^\text{21}\)

The total market value of the A-shares sector in the two stock exchange markets combined (Shanghai and Shenzhen) surpassed the total value of the Japanese stock market in 2014 and has since stayed as the world’s second largest stock market only after the U.S. market. Though there are still some restrictions on foreign investors to buy and sell shares in the market, the liquidity issue has been under constant reform. According to latest government regulations, foreigners (individuals) residing in China and foreign employees working for Chinese companies’ overseas branches can register as investors of China’s stock market. Foreign financial organizations were allowed to trade in the Chinese stock market since 2014 (Xinhua News Agency 2019b). By the end of 2019, foreign investors owned 2.9% of the total A-share market value (ibid.).

\(^{21}\) This calculation does not include foreign individual investors and organizations. As far as I know, China’s regulatory organizations have not disclosed any information on the number of foreign investors. This number is still intuitively small and is only estimated as a few dozens of thousand. According to latest government regulations, foreigners (individuals) residing in China and foreign employees working for Chinese companies’ overseas branches can register as investors of China’s stock market. Foreign financial organizations were allowed to trade in the Chinese stock market since 2014 (Xinhua News Agency 2019b).
The E-commerce

At the turn of the 21st century, the electronic commerce (E-commerce or eCommerce) or online commerce started to emerge and flourish when new technology of Internet made such distant trade possible for most individuals. Relative to traditional commerce, E-commerce is a typical type of non-self-enforcing contract made between strangers in the marketplace, which requires high interpersonal trust and impartial third-party enforcement. Not surprisingly, the United States has become the forerunner of E-commerce because of its technological niche, easily available capital, a large domestic market, advanced logistic infrastructure, and more importantly its rule of law, strong contract enforcement and high level of trust among strangers. Several world-famous E-commerce companies were created here such as Amazon and eBay.

In early 2000s, China obviously lagged behind the United States almost in every aspect that is necessary for the development of eCommerce. As suggested by a World Bank report, such necessary factors may include: the human capital with skills and entrepreneurial spirit, good infrastructure and logistics, and an overall conducive business environment (The World Bank and Alibaba Group 2019).

However, China’s e-commerce experienced a stunning growth in the last decade or so. In 2013, China’s ecommerce volume reached $314 billion, surpassing the United States’ $255 billion as the largest online market (Morgan Stanley 2015). By the end of 2018, more than half of the total global online commerce transactions came from China. Total Chinese online shoppers surpassed 560 million and the number is projected to reach 634 million in 2020. By then, China’s eCommerce market is expected to be bigger than those of the U.S., UK, Japan, Germany, and France combined (International Trade Administration 2019).
This puzzling fact of a relatively poor rule-of-law country having formed the world’s largest impersonal online market posed a major question: what have contributed to the phenomenal growth of China’s eCommerce? According to an extensive field research in China (Liu 2019), the answer lies in the so-called “institutional outsourcing” of the Chinese’ governments’ power (such as rule of law) to private parties (Such as eCommerce company Alibaba). Because of China’s relatively poor rule of law and insufficient capability to protect property rights and enforce contracts, the Chinese government actually acquiesced some contract-enforcing practices of eCommerce companies and even formally delegated some roles to these private parties (Liu 2019). This helped establish trust among sellers and buyers in the impersonal marketplace in China.\(^{22}\)

### Foreign Direct Investment

Though Foreign Direct Invest (FDI) can be influenced by various economic and political factors, one critical fundamental consideration for all investors is the security of investment. Countries with strong rule of law and impartial enforcement of contracts normally can attract more FDIs because of its strong commitments to legal protection. According to a survey done by the World Bank through interviews with 754 executives of multinational corporations (MNCs), over 90

\(^{22}\) This comes back to the legitimacy issue mentioned earlier that the CCP supports any efforts that may improve economic development. That incentive resultantly improved its legitimacy in ruling China. More details in this aspect will be discussed in Chapter 5.
percent respondents rate various types of legal protections important or critically important, the highest rating among all factors included in the survey (The World Bank 2018). Political considerations such as “political stability and security,” “legal and regulatory environment” far outweigh economic factors such as low tax rates and labor costs (ibid.).

China started reform and opened up its door to FDI in 1979. In early 1980s, overseas Chinese from Hong Kong and Macao were the main sources of investment because of language and culture connections (Jing and Song 2003). China introduced FDI incentives in 1986 (Ali and Guo 2005). Then FDI from other Asian developing economies such as Taiwan, Singapore, and South Korea followed steps. After Deng’s southern tour in 1992, China lifted a large amount of restrictions on FDI. In 1993, China became the largest receiver of FDI among all developing countries (Ali and Guo 2005). After China joined the WTO in 2001, it further reformed its polices concerning FDI in order to conform to WTO regulations. FDI inflow surged afterwards. In 2002, China became the largest FDI recipient in the world (Jing and Song 2003). From 2007 to 2016, China ranked second in cumulative FDI inflows only after the United States (Obiols 2018).
While at the early stage China’s major FDI inflows came from developing economies such as Hong Kong, Taiwan and Singapore, FDI from developed countries continued to account for more shares in the overall FDI inflow into China in later years because these investors from contractualist economies “strictly require intellectual property protection and prefer to use the formal channel, just like judiciary and administration, to solve problems” (Jing and Song 2003). From Figure 3.2 we can see that normally after China made some major reforms, FDI could experience a long period of quick growth such as the years after Deng’s southern tour in 1992 and the decade after China joined the WTO in 2001.
The Labor Market

The economic norms theory assumes that contractualist economies have an inclusive marketplace, where individuals normally can find better price for their labor, skills or widgets than they can from friends, family, and connections (Mousseau 2019: 167). That is why most of the time contractualist states have net positive migration. This part will have a brief study on both domestic and international migration data of the PRC since its reform and opening up in late 1970s. However, emphasis will be placed on the domestic migration since the complexity of international migration cannot clearly show the contract density of the Chinese economy yet.

*International migration*

Historically, some places in China such as Guangdong and Fujian had a long tradition of emigration since centuries ago (Ling 1912, McKeon 2010). After the founding of the PRC, because of the government’s strict prohibition on the population’s movement, large-scale migration did not occur even during the famine followed the Great Leap Forward (Chen and Zhou 2007: 667). After the reform and opening up, restrictions started to liberalize. According to data from the World Bank, China has always had net negative migration since 1972. From the late 1970s on, the number has been increasing for most of the years (Figure 3.3). While at the same time, Japan and the Republic of Korea, both are contractualist economies, maintained a net positive migration for most of the years (ibid.).
While the total number of Chinese emigrants maintained at a high level in recent years, the structure of the emigration has changed substantially. Historically, low-skilled and/or unskilled emigrants were the major component of China’s emigration, but recently the number of low-skilled emigration has stagnated and “wealthy and highly skilled migrants dominate outflows” (Xiang 2016: 2). One major trend in China’s migration in recent years was the dramatic increase of number of high-income population pursuing investment visas in developed countries. For example, in 2010, 58 percent of immigrant investor visas in Canada were granted to Chinese nationals. Between 2012 and 2015, 87 percent of all Significant Investor Visa holders in Australia were Chinese nationals. In 2014, in the United States, 85 percent of investor visa recipients (EB-5 visa) were Chinese nationals (various data sources cited from Xiang 2016). According to a recent survey, around 60 percent of “super high net value” individuals with more
than 10 million yuan assets (around US $1.6 million) in China have considered emigrating (ibid.). The major drives for migration of this high-income group are not economic ones, but rather social and political ones such as children’s education, quality of life (safe food, clean air, etc.) and political stability (ibid.).

International students from China were another major source of migration in recent years.23 In 2013 alone, there were 414,000 students left China to study overseas (ibid). That number was less than 50,000 in 2000. There were more than 360,000 enrolled Chinese students in American academic institutions in the 2017-2018 academic year, accounting for one third of all foreign students in the United States (BBC 2019a). Most of these Chinese students were self-financed. They were estimated to spend around US $13 billion in the United States in the 2017-18 academic year including tuition and living expenses (ibid).

Various data show that the increasing number of Chinese emigrants in recent years were not merely attracted by economic opportunities overseas, but rather a result of the booming economy at home. The newly rich and the emerging middle class have more financial resources to make life choices for themselves and their children.

The economic growth in China not only drove more emigration, but also attracted immigration as well. The majority of the overseas Chinese students would finally return to China after graduation. In 2017 alone, 670,000 overseas Chinese students returned to China. The number is expected to increase to 750,000 in 2018 (LockinChina and GUCCU 2018). The trend

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23 According to definition by United Nations Statistics Division, international students who study in the receiving country for more than one year are regarded as migrants. See the World Bank (2016).
of more Chinese student returnees in recent years is believed to be mainly motivated by China’s economic growth and the tightening of Western job markets (LockinChina and GUCCU 2018; Xiang 2016:7).

In addition, the number of foreign emigrants in China has also been increasing in recent years. According to one study, by 2012, there were around 100,000 Sub-Saharan Africans living in the city of Guangzhou (Bodomo 2012). United Nations Economic and Social Council estimated that foreign population in China reached around 1 million in 2015 (LockinChina and GUCCU 2018). By the end of 2017, around 590,000 foreigners had worked in China (ibid.).

In the bordering region of China and Vietnam, the local economic growth had attracted significant number of Vietnamese to cross the border to work illegally there. Since 2017, when authorities on both sides cooperated to legalize the labor flow, within one year, more than 100,000 Vietnamese workers had got permission to work in China (Xinhua News Agency 2018b). In 2017, the local markets also attracted numerous Vietnamese tourists and businesspeople to visit the port of Dongxing on the border when the Chinese authorities sped up customs clearance to only 6 seconds for each visitor. Only in the first half of 2019, the port had seen 6.8 million Vietnamese tourists and short-term visitors, which further stimulated the need for more labor force such as shop assistants in the local labor market (China Daily 2019).

International migration in China so far is still relatively small if compared to its large population. On the contrary, its domestic migration, no matter its scale or depth, far outweighs the international migration.
Domestic migration

Understandably, not all contractualist states can transform from status/axial status to contractualist right away, especially for some large economies with different sub regions experiencing various economic conditions. Areas such as southern Italy, Northern Ireland and the American South all had a history of a status or axial economy while the country as a whole had already enjoyed a contractualist economy (Mousseau 2019: 171). Migration also existed in those domestic areas. For example, the American South did not have had a contractualist economy probably until the civil rights movement in the 1960s, even though the United States as a whole had a contractualist economy since its independence. Migration data also showed that the migration was always from the South to the North before 1960s (ibid.).

China’s domestic migration in the last few decades probably was the largest movement of population in peacetime in the records of human history (Murphy 2002:1). In the Mao’s time, 80 percent of Chinese were restricted to rural areas and voluntary migration to urban areas were strictly prohibited. After the reform and opening up, restrictions on people’s movement started to loosen. After the CCP committed to build a socialist market economy in 1992, more foreign investment and export growth increased demand for low-skilled labors. The farmer-turned workers became the main force of this migration. Rural-urban migration increased from 25 million in 1990 to 170 million in 2016 (Gregory and Meng 2018: 395). This equaled approximately to the combined total population of France, Germany and Poland.

In the last four decades, most of these migration workers came from the hinterland to find better lives in the coastal provinces where reform and opening up started first. Recent studies
also show that rural-urban migration to big coastal cities are declining, while relocation of the labor force to small cities are on the rise (ibid.).

The quick rise of eCommerce in recent years increasingly attracted more rural labor force to find opportunities at their doorstep. According to a joint research of the World Bank and the Alibaba Group, the so-called Taobao Villages\(^{24}\) where eCommerce is most developed or concentrated have risen from 20 in 2013 to 3,202 in 2018 (The World Bank and Alibaba Group 2019). In the same year, villagers from these villages maintained 660,000 active online shops on Taobao.com, Alibaba’s online retail platform. The total annual sales of these e-shops reached 220 billion yuan (approximately US $33 billion) (ibid.: 105). In 2017, 785 Taobao Villages sold products to 134 countries and regions outside of China (ibid).

Online stores registered in rural areas in China created 28 million employments in 2017 (ibid.:160). The Taobao Villages also directly created 1.8 million jobs in 2018. Among the e-shop owners of the Taobao Villages, around 32 percent of them have worked in cities, suggesting many of them were migrant workers (ibid.:114). In these Taobao Villages, only 10 percent of registered residents worked outside of the villages in 2017. While at the same time, the national average percentage was 21 percent (ibid. 111). Average household income of the Taobao Villages far exceeded the average rural household income level and was very close to that of urban areas in 2017 (ibid.:111). E-shop wage workers in the Taobao Villages had an

\(^{24}\) According to the definition made by Alibaba’s online sales platform Taobao.com, Taobao Villages are areas where e-commerce is most developed or concentrated in rural areas, specifically, villages where at least 10 percent of households actively engage in e-commerce (or where there are at least 100 active e-shops) with annual online sales of at least 10 million yuan (or $1.5 million).
income level that was equal to or even higher than that of urban workers in private enterprises (ibid.:116).

The voluntary mass migration driven by economic factors in the reform era could never happen during the planned economy times. It demonstrated how capitalist market-development can greatly reshape the Chinese economy and society. When the economic development in rural areas and inland provinces started to speed up, more population will seek opportunities in small cities and rural areas, causing the further decline of internal migration within China.

Is China a Contractualist Economy Yet?

After four decades of economic reform and high-speed development, China today is already the second largest economy in nominal GDP term after the United States. It is the largest trading nation and biggest exporter of merchandise. The above analyses of the non-self-enforcing contract market, foreign direct investment and labor market show that great changes have taken place since China’s market reform started. Will these results reliably demonstrate that China might have become a contractualist economy? The following discussion will focus on this question.

According to the criteria set by economic norms theory, states with the following two characteristics are normally regarded as contractualist economies: 1) life insurance premium per
capita is higher than US $165; 2) The ratio of the residuals of energy consumption-predicted flows to GDP-predicted flows is greater than one (Mousseau 2019).25

For the first criterion, China had already met in 2010. China’s life insurance per capita reached US$172 that year. This means China’s economy has been more contract intensive. However, China failed the second standard. The ratio of the residuals of energy consumption-predicted flows to GDP-predicted flows was still larger than one in 2010, indicating there were still significant amount of informal economic flows not captured by China’s GDP data. Even if for some contractualist economies, informal economy can exist inside their economy for a considerable time. For example, the American South, the Northern Ireland and southern region of Italy might all had a history of status or axial capital economy when even the country as a whole had a contractualist economy (Mousseau 2019: 171).

However, after another ten years’ relatively high-speed capitalist market-development, is it possible that China continues to increase its contractual economic flows and may have squeezed the informal flows out of its economy or at least limited them in very limited regions or sectors? I will analyze from the following two points.

25 Mousseau (2019) argues that “GDP data proxy contractualist economy because they are primarily constructed from receipts of contracts and surveys of contract flows collected by government agencies. […] In contrast, energy consumption data is likely to reflect status flows as well as contractual flows. It follows that if the ratio of the residuals of energy consumption-predicted flows to GDP-predicted flows is greater than one, there are flows in an economy that are not monitored by the state, or are informal.” For more details, see the codebook of the CINE dataset, Mar-2019 at: https://sciences.ucf.edu/politics/person/michael-mousseau/
Life Insurance Development

The life insurance premium data from Beck, Demirgüç-Kunt, and Webb 2010 only cover the time period of 1986-2010 for China. From another two sources, I obtained China’s life insurance

![China's Life Insurance Premium, 1999-2019](image)

Figure 3.4: Life Insurance Premium Per Capita in China, 1999-2019
Data source: China Banking and Insurance Regulatory Commission (CBIRC); 26 Beck, Demirgüç-Kunt, and Webb 2010; 27

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26 Original data are total life insurance premium in Chinese yuan and are available from 1999 to 2019. Using China’s population data from the World Bank and annual average closing exchange rate data between yuan and USD from macrotrends.com, I convert the original data into life insurance premium per capita in current USD.

27 Cited from Mousseau 2019. Values are 8 year moving average. The original data in Beck, Demirgüç-Kunt, and Webb 2010 are ratio of life insurance premium to GDP. Life insurance premium per capita data are obtained by introducing GDP and population data from Heston, Alan, Robert Summers and Bettina Aten. 2012. Penn World Table Version 7.1, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, July 2012. Original GDP data are in PPP term, therefore are higher than using China’s nominal GDP data.
Global Financial Development, the World Bank.\textsuperscript{28}

data in the post-2010 years. The World Bank’s Global Financial Development database has
China’s life insurance penetration (the ratio between life insurance premium and GDP) from
1996 to 2017. China Banking and Insurance Regulatory Commission (CBIRC) releases data of
China’s annual total life insurance premium from 1999 to 2019. Data from both sources indicate
that life insurance premium per capita in China continued to increase steadily after 2010 (Figure
3.4). This informs us that contract intensity of the China’s economy has been on growth and the
trajectory seems to suggest that China will continue to see an enlarging insurance market. This is
in accordance with observations from other sources that I discussed above.

Informal Economic Flows

When contractualist economy continues to develop in China, the informal economic flows still
exist in the Chinese economy, though it has been on a steady decline (Figure 3.5, C). According
to the economic norms theory, normally when capitalist-market economy continues to grow in an
economy, more population would find better price for their labor in the new form of economy
and would leave the old status networks, causing the informal/status economy to decline
(Mousseau 2019). When the contractualist economic development is strong enough to expand to

\textsuperscript{28} The life insurance premium data in the World Bank’s Global Financial Development database originally come from various reports of Sigma Reports, Swiss Re.
the whole territory, the country can then cross the threshold and become a contractualist economy.

In most contractualist economies, the contractualist economic development normally could drive the informal economy out before its contract intensity reached a certain extent (e.g. $165 life insurance premium per capita). According to the CINE Mar-2019 dataset, before they finally transformed to a contractualist economy, only Trinidad & Tobago, Bahrain, Republic of Korea, Malaysia and Singapore experienced at least one year of such “strong” axial period when their life insurance premium per capita crossed the $165 threshold but still had a significant informal economy (Table 3.1).

Table 3. 1: Economies with “Strong” Axial Years (1965-2010) *

<table>
<thead>
<tr>
<th>State</th>
<th>Axial Years</th>
<th>State</th>
<th>Axial Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>1979--</td>
<td>Thailand</td>
<td>2009--</td>
</tr>
<tr>
<td>Namibia</td>
<td>2003--</td>
<td>Malaysia</td>
<td>1995-2003</td>
</tr>
<tr>
<td>Bahrain</td>
<td>2009</td>
<td>Singapore</td>
<td>1985-1993</td>
</tr>
<tr>
<td>China</td>
<td>2010--</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* “Strong” here means economies with life insurance premium per capita above US$165, suggesting a strong capitalist-market development in a certain economy. Because in these axial years, informal economy still significantly exists, they are not regarded as contractualist economy yet.
Figure 3. 5: Contractualist and Informal Economy
Data source: CINE Mar-2019
The case of Taiwan demonstrates a typical transformation to a contractualist economy that its informal economy decreased to smaller than one (0.97 in year 1978) before its life insurance premium per capita hit $165 in 1983 (Figure 3.5, A). The case of South Korea shows the transformation of a typical “strong” axial economy that its life insurance premium per capita crossed the $165 threshold in 1981 before its informal economy shrank to smaller than one in 1987 (Figure 3.5, B).

China fits the model of such a “strong” axial economy and its pattern is very much close to the Korean one. Besides China, there are only other three countries in such a situation. South Africa seems to be stuck there. After more than four decades of development, its axial economy still cannot transform into contractualist. Namibia also has hovered in this period for around seventeen years. Like China, Thailand just entered this period. According the Polity IV project, the regime type of these three “stuck” states were all democracies when they entered this axial period (Namibia 1990; South Africa 1992; Thailand 1992) (Marshall, Robert and Jaggers 2012). While the other five states, which successfully transformed from a “strong” axial economy to a contractualist economy, all except Trinidad & Tobago had an autocracy or anocracy before they completed the transformation. More details will be discussed whether democracy would help China transform its economy.

Based on the observations above, I conclude with discreet optimism that China might have been close to a contract economy because the fundamental drive behind China’s transformation will continue to be there. However, for large economies, historical evidence seems to imply that transformation normally takes longer time than for small economies. Such
examples include France and Germany (Mousseau 2019:172). China may spend decades like these two large European states did before it can transform into a contractualist economy.

**Conclusion**

In this chapter I mainly tried to explain why China started to transform from a soviet style planned economy towards a contractualist market economy. The logic lays behind this great transformation is the ruling CCP’s legitimacy issue and the “positive feedback loop,” which has played a fundamental role in the last four decades and will, in my opinion, continue to exert such an effect in China’s economic development.

I also answered the question of whether the Chinese state can be accounted as a trustworthy third-party enforcer in the Chinese economic life despite its regime type still remains a highly autocratic one. My major argument is that the legitimacy issue can largely hold the CCP accountable in developing China’s economy, and to further take market-oriented reform is the only way for more healthy and sustained development of the Chinese economy. The CCP is firmly against democratization but is still firmly committed to further reform and opening up.

I also observed various sectors in the Chinese economy to discover evidence of the great changes taken place since China’s economic reform. All evidence seems to indicate that China’s economy has been moving toward more contract intensive. However, it also situates in an axial period with a strong capitalist-market development.
Last but not least, the criteria that Mousseau (2019) uses are perfectly fine for analyses of a large dataset. However, large data are normally coarse and cannot streamline every single case. The world always observes special cases and in any large dataset there are some outliers. Therefore, in order to reliably decide whether China has evolved into a contractualist economy, I need more descriptive evidence from the Chinese society. The following chapters therefore will play such a role. Since economic norms theory predicts institutional change after economic change (i.e. from status/axial towards contractualist), I will search evidence of such institutional change from the three levels of analysis—individual, national and international, in order to decide whether these changes can help decide whether this major state is close to complete its great transformations.
CHAPTER 4: ANALYSIS ON THE INDIVIDUAL LEVEL: MARKET ECONOMY AND CHINESE LEADERS’ BELIEFS

As discussed in Chapter 2, economic norms theory predicts different cultures between contractualist and status societies on three distinct analytical levels: individual, national and international. Societies transitioning from a status society to a contractualist one may demonstrate coexistence of both cultures. Changes in China can be traced on these three analytic levels since it comes close to a contractualist economy in recent years. The following three chapters including this one will track such changes as expected by the economic norms theory on the three analytical levels. This chapter mainly focuses on change on the individual level—evolution of Chinese leaders’ beliefs and psychological traits since 1949. Chapter five will mainly focus cultural change on the national and societal level—how social norms have changed as the Chinese economy transforms towards a more contractualist one. Chapter six will dedicate to the study of changes on the international level—how China transformed its foreign behavior in dealing with other states while experiencing economic changes.

The first section of this chapter will explain why I focus on Chinese leaders and why I analyze their beliefs and psychological traits. In the second section, I will apply content analysis tools commonly used in political psychology to examine the change of Chinese leaders’ beliefs and psychological traits by analyzing their speech contents. I will also compare the results of content analysis of Chinese leaders’ verbal materials to those of other state leaders, in order to know what position the Chinese leaders occupy in the political spectrum worldwide. Finally, I will try to explain the reasons of the differences in world views and personal characteristics.
among the five Chinese leaders and offer an answer from the perspective of the economic norms theory.

Leaders’ Beliefs and Content Analysis

This chapter analyzes changes in China on the individual level but only focuses on the Chinese leaders. This is not to say that each individual in the Chinese society has not experienced great changes or such changes are not important. Rather, collective changes in each common Chinese citizen will no doubt seriously transform the Chinese society as a whole. I will discuss such changes in the next chapter.

In addition, this dissertation is motivated by the question of why and how China’s domestic changes can influence its foreign behavior. In China’s current political system, the foreign policy decision-making process is relatively closed, and the scope of decision-makers is limited to a small group of top leaders (Feng 2009). Also, China’s one-party rule makes the decision process face less structural constraints as compared to those in democratic nations. In other words, Chinese leaders have less pressure from their constituency and more maneuver room in foreign policy decision-making than their democratic counterparts, thus making their personal influence more important in the decision-making process. The above two points explain why I choose Chinese leaders as unit of analysis in this chapter.

More than fifty years ago, scholars such as Snyder, Bruck and Sapin (1962) had already proposed new perspectives in Foreign Policy Analysis (FPA). They argued that ideational factors should be given more emphasis in FPA and the point of intersection between materialism and
idealism should not be the *state*, but rather *human decision-makers* (Hudson 2002: 3-4). In recent decades, more and more IR scholars began to acknowledge that “who leads matters” (Hermann et al. 2001).

Sources for the study of leaders can include but are not limited to leaders’ biographies, disclosed confidential government documents, memoirs of high-ranking officials, interviews with leaders, so on and so forth. However, disclosed confidential materials always lag several decades behind the happening of events. In addition, national archives in many countries, especially in status countries, are most probably not open to the public. Also, the subjects of study are normally not easily approachable. Even if they are, politicians may cover up something or even lie about their real intentions in historical events.

Another way to do this job is to analyze the content of what political leaders say. One major assumption that the content analysis approach adopts to study leaders’ personal traits is that “what people say and how they say things can tell us much about what they think and who they are” (Schafer and Crichlow 2010: 47). This technique uses subjects’ verbal materials, either spontaneous or prepared speech, to analyze the contents and generate certain variables that measure a part of the characteristics of the subjects.

Political psychologists have in recent decades developed several methods of measuring ideas and personality. One method is called “at-a-distance assessment,” in which researchers use verbal materials to assess leaders’ personalities, traits and cognition from different temporal and geographic points (Winter 2003). Because leaders’ public verbal materials are largely available to researchers, they therefore provide researchers with an inexpensive and useful tool to enter political leaders’ inner world, such as beliefs and personal traits, some of which may largely
reflect the central heuristics of their decision making. These two points above explain why I choose the content analysis tool.

Chinese Leaders’ Beliefs and Psychological Traits

The two “at-a-distance assessment” content analysis methods that I use here have been widely applied by political psychologists in recent decades— operational code analysis (Op Code) and Leadership Traits Analysis (LTA).

The operational code analysis was first developed by Nathan Leites (1951, 1953) to analyze the beliefs of Soviet Politburo members. Alexander George (1969) then adopted a systematic study of leaders’ operational codes. The computer program Verbs in Context System (VICS) of content analysis for “retrieving and analyzing a leader’s operational code beliefs” was later developed (Walker et al. 1998: 215). Operational code analysis is “an approach to the study of political leaders that may focus narrowly on a set of political beliefs or more broadly on a set of beliefs embedded in the personality of a leader or originating from [in] the cultural matrix of a society” (Walker et al. 1998: 157). The two operational code variables that I will use in this study are philosophical beliefs ($P_1$) and instrumental beliefs ($I_1$). $P_1$ measures leaders’ beliefs on how harmonious or aversive the other actors in the political universe are. As coded by VICS method, $P_1$ is a measurement from -1.0 to +1.0 with -1.0 meaning the leader’s political beliefs are extremely hostile and +1.0 extremely friendly. $I_1$ measures the leaders’ approach to goals on a continuum of being extremely conflictual (-1.0) to extremely cooperative (+1.0) (Walker, Schafer and Young, 2003).
Leadership Traits Analysis (LTA) is a frame developed by Margret Hermann to assess leadership style. Since the early 1980s, Hermann has discovered a set of leadership styles which she believed have guided leaders to interact with people around them (Hermann 2003). She developed seven useful personality traits to assess leadership style and those traits provide information that is “relevant to assessing how political leaders respond to the constraints in their environment, how they process information, and what motivates them to action” (Hermann 2003: 186). “Distrust of others” is one of the seven variables used to assess leaders’ personalities. Distrust of others involves “a general feeling of doubt, uneasiness, misgiving, and wariness about others.” Leaders with high distrust of others are more “suspicious about the motives and actions of others, particularly those others who are viewed as competitors for their positions or against their cause or ideology” (Hermann 2003: 203). I will use distrust in the following analyses. The value of the variable also varies from -1.0 to 1.0. The larger the number, the higher level of distrust.

The analyses below will concern five Chinese leaders: Mao Zedong, Deng Xiaoping, Jiang Zemin, Hu Jintao, and Xi Jinping. Many of these leaders’ speeches are available in their published works or archives. The verbal materials are machine-coded by Profiler+, an automated content analysis software package.29 Because of the quantity limit of Chinese leaders’ speech and the word limit required by the Profiler+ software,30 different styles of verbal contents (i.e. spontaneous talks and prepared speeches) are used. Depending on different situations, speech audiences include both domestic and foreign. I try to keep these speech contents homogenous in

29 The version I used is 7.3.2. For more details, please visit the website of the program: http://socialscience.net/tech/profilerplus.aspx

30 In order to achieve reliable results, the program has a minimum requirement of 4000 words for Op Code and LTA analyses.
order to increase comparability. However, because of those discussed constraints, sometimes this comparability has to be partly sacrificed, but a priority is given to spontaneous talks such as press conferences, small-scale talks, dialogues and so on. Priority of topic areas is given to foreign affairs though most of the time enough speech contents on this topic are far from satisfactory.

I collected these public speeches, interviews, dialogues and talks made by China’s top leaders from 1949 to 2015 on an annual basis. The English version of *The Select Works of Mao Zedong* and *The Select Works of Deng Xiaoping* have been published by Foreign Languages Press in Beijing. In these works, the two paramount leaders’ speeches, interviews and works were documented. Open source materials are more abundant for the other three Chinese leaders: Jiang Zemin, Hu Jintao, and Xi Jinping. Most of their public speeches and interviews were documented and translated into English by some authoritative sources, such as China’s official news agency—Xinhua news agency, the official newspaper of the Communist Party of China (CCP) —*People’s Daily* and the government-affiliated magazine —*Beijing Review*. The verbal materials made by the five leaders are documented in the following years: Mao Zedong (1949-1976), Deng Xiaoping (1977-1992), Jiang Zemin (1993-2002), Hu Jintao (2003-2012), and Xi Jinping (2013--2015).31

Table 4. 1: Mean Scores of Chinese Leaders’ Beliefs and Traits

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31 Because of the Profiler+ software’s minimum word requirement, I cannot find enough speech contents in some specific years. Data in the following 9 years are therefore missing: 1971, 1973, 1976, 1977, 1992, 1994-1997. For a full list of the speech contents that I use here, see the Appendix B.
From the primary results of the content analysis (see Table 4.1), we can easily observe the differences between Chinese leaders in their worldviews, approaches as well as distrust level. For example, Mao’s $P1$ and $I1$ values are significantly low and distrust value significantly high, which suggest that he had a very conflictual understanding of the outside world and he was more willing to use conflictual approaches to achieve his goals. Also, he had a strong distrust of others. These results intuitively fit observations made by most historians on Mao’s worldviews and personalities (Pye 1976; Terrill 1980). Throughout most of his life, Mao believed that the struggle between the proletariat class and the bourgeois class and the conflict between the Socialist camp and the Capitalist camp were irreconcilable. Many of his quotes could reflect such conflictual worldviews. Some famous examples include:

“A revolution is not a dinner party... A revolution is an insurrection, an act of violence by which one class overthrows another.” (Selected Works of Mao Zedong, Vol. I, p. 28.)

Note: $P1$=Leaders’ philosophical views about the political Universe; $I1$=Leaders’ instrumental views of how to achieve goals; DIS=distrust of others. The scores marked with * are those with at least one standard deviation away from the world mean score.
“Political power comes out from the barrel of the guns” (Selected Works of Mao Zedong, Vol. 2, p. 224).

“The enemy will not perish of himself. Neither will the Chinese reactionaries nor the aggressive forces of U.S. imperialism in China step down from the stage of history of their own accord.” (Selected Works of Mao Zedong, Vol. IV, p. 301).

Mao also took a very conflictual approach to achieve his political goals, either domestically or internationally. For example, he used various political campaigns to crack down his political opponents. Also, during his rule, the PRC started or joined several international wars (the Korean War, the Sino-Indian War, the Sino-Soviet Border Clashes, the Vietnam War, as well as several serious conflicts with Taiwan).

In addition, Mao had a deep distrust of his political opponents and revolutionary comrades even when the CCP was already in stable control of mainland China. For example, when a long-term ally—Marshall Peng Dehuai—made suggestions to him on the disastrous political campaign Great Leap Forward in a personal letter during the Lushan Conference in 1959, he took Peng’s suggestions as a serious political challenge on himself as the CCP leader and instantly started another political campaign to label Peng and many other CCP high officials “rightists” and cracked them down mercilessly (Li 1989). In the early 1960s, Mao started to fear that his official successor Liu Shaoqi might copy what Khrushchev did to Stalin after the latter’s death. So, he started the Cultural Revolution to dispose Liu who was later tortured to death by the revolutionary red guards (Teiwes 2014). After Liu’s death, he made Lin Biao his official successor, but soon he again feared that Lin might replace him prematurely. He then wanted a showdown with Lin, which forced the
latter to flee to the Soviet Union. Unfortunately, Lin was killed when his plane crashed en route (ibid:104-105).

While the values of Mao’s beliefs and traits all significantly deviated from world mean scores, Deng Xiaoping’s $P1, II$ and distrust values do not show significant difference with world means. Deng’s data suggest that, as compared to Mao, he probably had a more peaceful and benign view toward the political universe than Mao did. He was also thought to be more willing to use cooperative means to achieve his goals. His distrust level was also lower than Mao’s. These results may also be reasonable reflections of historical facts.

The Cultural Revolution came to an end after Mao’s death in 1976 and Deng became the paramount leader in 1978. At the same time, Beijing’s security situation was significantly eased. China became a quasi-ally of the United States after Beijing’s rapprochement with Washington. The two major powers finally established ambassadorial diplomatic relationship in 1979. Though Soviet Union and Vietnam still remained enemies, Beijing’s international status was greatly ameliorated and its relationship with the West and neighboring countries significantly improved in the late 1970s and the early 1980s. It was under such circumstances, Deng and a few other top leaders within the CCP were able to kick off economic and political reforms.

As contrasted to Mao’s understanding of the world being full of threats and uncertainties, Deng viewed the world in a more peaceful way when he became the paramount leader. In the early 1980s, Deng believed that peace and development were “the main themes of our time” (Deng 1993: 105-106).
While Mao often used radical means such as revolutions and political campaigns to reach his goals, Deng was more practical and cooperative to complete his mission. One of his famous quotes about his pragmatic approach is the so-called “cat theory”:

> *It doesn’t matter if the cat is black or white, as long as it catches mice, it is a good cat.*

The content analysis results show that post-Deng leaders all have significantly peaceful views about the political universe and cooperative instrumental beliefs. Except for Jiang, both Hu and Xi have very low distrust levels as compared to world leaders’ mean (Table 4.1).

Both Jiang and Hu were hand-picked by Deng as the top leaders of the third and fourth generation of the CCP leadership (Guo 2012: 106). They were young enough not to be involved in the political struggles among the party leadership in various political campaigns such as the Cultural Revolution. When they became top leaders, China already enjoyed a relatively high international status and peaceful relationship with most states. Jiang opened party membership to capitalists with his “Theory of Three Represents” (Jia 2004). Hu proposed the “peaceful development, harmonious world” ideas for China’s development model and foreign policy (Yu 2007). These facts may explain why both Jiang and Hu could have peaceful views about their political universe.

Both Jiang and Hu were engineer-turned politicians (Li 2003). They faithfully continued Deng’s basic strategies of reform and opening up and focused on economic development rather than intra-party political struggles. Both strictly followed Deng’s dictum of “hiding your light, biding your time,” and kept a low profile and avoided challenging the international order.
Xi was born after the establishment of the People’s Republic of China. He suffered hardships in northwestern rural China because of his father, Xi Zhongxun, a CCP party veteran purged during the Cultural Revolution. However, he was able to come back to Beijing when the Cultural Revolution ended. He became the party secretary of a county party committee when he was only thirty years old. He ascended the party hierarchy all the way up to the secretary general of the CCP and President of the state in less than 25 years. His political career was rather smooth as compare to others within the CCP. In most of his political career, he worked in economically developed provinces such as Fujian and Zhejiang (Andresy 2016). It is therefore not difficult to understand that his philosophical and instrumental beliefs can be peaceful and cooperative, and his distrust level low.

Li (2014) analyzed extensive historical documents of the People’s Republic of China and coded the variable “military worldview” to measure Chinese leaders’ perception of outside threat to China since 1949. By definition, that variable is close to the variable $P_1$ here. Both are measures of Chinese leaders’ perception of threat from their surrounding world. The only difference is that $P_1$ measures the nature of the whole political universe, while “military worldview” is a reflection of leaders’ perception of foreign military threat. The pairwise correlation index between these two variables is 0.70 (i.e. when $P_1$ increases meaning leaders’ perceptions of political universe becomes more peaceful, they tend to feel less foreign threat, $p<0.01$). This high level of correlation between the two research results achieved with distinctly different methods

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33 According to Li’s coding, the higher the value of “military worldview,” the more likely the Chinese leaders believe there would be a war. Thanks go to Dr. Xiaoting Li for generously providing his data.
might be an indication that their measurement of Chinese leaders’ worldviews is largely reasonable and reliable.

In conclusion, we can find a general tendency in the data of the three variables: both $P_1$’s and $I_1$’s values increase, and the value of Distrust decreases as time goes by. This tendency suggests that more recent Chinese leaders have more peaceful world views, and they are more willingly to use cooperative means to achieve their goals. Their distrust level is lower than that of the first two leaders. These differences among different generations of Chinese leaders are obvious and significant. What has contributed to such differences? The next section will explore potential causes.

What Caused Change of Chinese Leaders’ Beliefs and Psychological Traits

As discussed in chapter 2, the economic norms theory explains reasons why social and political norms may transform in contractualist economies where the majority of the population extensively engaged with strangers in the impersonal market on a daily basis (Mousseau 2000; 2009). Because of their deep and regularized engagement with strangers in the market, individuals in contractualist societies tend to expect that others will fulfill their contractual commitments and therefore may form a habit of trusting others. They tend to have a higher level of impersonal trust than people in status societies. Multiple surveys done on people’s trust in these two different types of countries have confirmed such hypothesis (Mousseau 2009: 61).
According to a study of leaders’ ideational characteristics in several countries and in various years,\textsuperscript{34} leaders in status countries normally have higher level of distrust (i.e. lower level of trust) than their contractualist counterparts. When states’ contract intensity increases, leaders’ distrust level decreases (see Figure 4.1).

In addition, according to the economic norms theory, people in contractualist societies have comparatively more positive-sum heuristics, while their status counterparts more easily get into zero-sum games. Based on this, the political competition in contractualist countries are relatively more peaceful. Political leaders show stronger preference for cooperation and

\textsuperscript{34} I thank Gary Smith, research fellow at University of Central Florida, for generously providing me the data, which are content analysis results of state leaders’ speeches in 70 leader-years after 1990. 32 leader-years are from Contractualist nations and 38 from non-contractualist nations.
willingness to make compromises. However, the typical political culture in status nations is likely to be more conflictual and zero-sum, many times even bloody. Political leaders often see the political universe with distrust and discord and may take more conflictual and risky approaches in their political life (Mousseau 2000).

The assertions mentioned above are reasonably inferred from the core arguments of the economic norms theory. Mousseau (2009) observed that with its economy passing the “tipping point” to become contractulist, Greece’s domestic political culture as well as its foreign policy concerning its long-time rival—Turkey—experienced a significant change from more conflictual to more peaceful.

What might have contributed to the change of Chinese leaders’ worldviews and beliefs in different generations? Political psychologists argue that both micro-level situational context as well as macro-level social context can influence one’s worldviews and personalities (Winter 2003:128). Economic norms theory admits that social context has a crucial impact on people’s decision heuristics; however, it does not make any culture-specific assumptions. It believes that similar economic factors will yield similar social norms (Mousseau 2009). Though micro-level factors such as age, education, religion, and party affiliation may influence one’s views and personalities, the macro-context factors such as socioeconomic and sociopolitical environment also serve as an important source of influence on people’s psychological traits. Leaders made decisions in very specific case-sensitive situation, but the larger social environment might also be an inalienable part of the source of their decision heuristics.

The reason why I chose the above three variables (P1, I1, Distrust) are two-folds. First, they have been widely used by political psychologists to study leaders in foreign policy analysis
and found to be useful. Computerized software is also available to easily analyze leaders’ speech contents. Second, they can largely test my major hypotheses in this chapter that economic change can cause changes in individuals including their ideational changes. These three variables rightly measure such changes—how leaders look at the political universe around them, what approaches they take to achieve their political goals and what their distrust level is, all of which can be predicted by the economic norms theory.

Therefore, my hypothesis here is that the Chinese leaders’ worldviews will become more peaceful and their instrumental beliefs will be more cooperative, and their distrust level will be lower as China’s contract intensity increases by time. From Figure 4.2, we can see that especially in the post-1979 years, as China’s contract intensity increases, Chinese leaders’ $P_1$ and $I_1$ values also increase, while at the same time, their distrust level decrease. The pairwise correlation is 0.74 between CIE and $P_1$, 0.66 between CIE and $I_1$, and -0.74 between CIE and distrust. All these correlations are statistically significant on the .001 level.
Except for this socioeconomic factor of market development, other major social context factors may also play a role in influencing Chinese leaders’ worldviews and traits. For example, the U.S.-China rapprochement following U.S. President Nixon’s visit to China in 1972 largely changed China’s security situation and therefore could significantly influence Chinese leaders’ perception of threat from the outside world. The end of the Cold War, one of the most important geopolitical events in the last century, may also have an effect on Chinese leaders’ worldviews. Some scholars argue that when China’s material capabilities increase, it will be more satisfied with its status and may be less conflictual in foreign affairs (Johnston 1998). If this is the case, then the
change of China’s material capabilities may also have an effect on leaders’ perceptions and beliefs concerning China’s security situation.

I therefore introduce three macrocontextual variables as control variables: *Cold War, US-China rapprochement*, and *China’s military capabilities*. Both Cold War and US-China Rapprochement are dummy variables. Cold War has a value of 1 before the year of 1992 and 0 thereafter. US-China rapprochement is coded 0 before the year 1972 and 1 thereafter. I expect to see positive relations between these two control variables with the first two dependent variables (P1, I1), and a negative relationship with Distrust. I use data of military expenditure in the CINC (Composite Indicator of National Capability) index of the Correlates of War project as a gauge of China’s military capabilities (Singer, Bremer and Stuckey 1972). I expect to see a positive relationship between Military Capabilities and P1, I1, and a negative relationship between Military Capabilities and Distrust.

I also introduce two micro-level control variables: *age* and *foreign experience*. Several studies have observed that people’s age has a significant effect on their trust (Brewer, Aday, and Gross 2005; Brewer et al. 2004; Li, Wang and Chen 2016). *Age* is a continuous variable. Leaders’ real age is the value for this variable in a given year. For example, Mao Zedong was 56 years old in 1949, so the value for Age is 56 in 1949. I expect to see a negative relationship between Age

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35 “Military expenditure” is one of the six indicators of the Composite Index of National Capability (CINC), a commonly used index to measure states’ material capabilities in the discipline of international relations. CINC is made up of the following indicators - military expenditure, military personnel, energy consumption, iron and steel production, urban population, and total population. For more details, please visit the COW website: [http://www.correlatesofwar.org/data-sets/national-material-capabilities](http://www.correlatesofwar.org/data-sets/national-material-capabilities).
and P1, I1, and a positive relationship between Age and Distrust. Travelling abroad in one’s youth, as perceived by psychologist Gardner, opens one’s minds to different cultures and ideologies, while those without such experience are more easily equipped with parochial perspectives (Gardner 2011). Therefore, I include foreign experience (experience of living abroad) as another control variable. It is a dummy variable with 1 meaning having more than 6 consecutive months living abroad, and 0 otherwise. Searching in their biographies, I find that only Deng Xiaoping and Jiang Zemin traveled extensively during their youth or had experience staying in a foreign country for more than half a year. The other two leaders did not have such experience. I expect this variable to be positively related with P1 and I1, and negatively related with Distrust.

Before running the regression models, I first check the potential collinearity issue. I make a pairwise correlation test among the independent variables and find that CIE are highly correlated with Cold War and Military Capabilities. The correlations are statistically significant. The correlation coefficient for CIE and Cold War is -0.87. CIE and Military Capabilities are positively correlated at 0.78 (Table 4.2). All other correlations seem moderate even when they are statistically significant.

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36 One needs to be immersive in a different culture at least for a long period of time in order to be reasonably influenced by that culture. Thus I believe a stay of 6 continuous months in a foreign culture is a minimum threshold for such cultural influence based on my own experience living abroad for more than ten years now.

37 Since the CIE data are only available till year 2010, only Mao Zedong, Deng Xiaoping, Jiang Zemin and Hu Jintao are included in the analyses here.
Table 4.2: Pearson’s Bivariate Correlation Matrix

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<th>Cold War</th>
<th>Rapproach-ment</th>
<th>Military Capabilities</th>
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</tr>
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<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign</td>
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<td>0.53**</td>
<td>1.00</td>
<td></td>
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<td>Experience</td>
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<td></td>
<td></td>
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<td>Rapproachment</td>
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<td>0.68**</td>
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<td>1.00</td>
</tr>
<tr>
<td>Capabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: N=62; *p<=0.05, **p<=0.01.

If we check the fact, these high correlations are actually understandable. The Cold War ended when the Soviet Union collapsed in late 1991. As discussed in Chapter 3, the CCP finally made the decision to establish a “socialist market economy” during its 14th Party Congress in October 1992. China’s economic reform and development then went on a fast track. Both its GDP and CIE experienced a quick rise in the 1990s. Of course, this is not merely a coincidence between the end of the Cold War and China’s redirection towards market economy. The collapse of the Soviet bloc provided the orthodox leftists within the CCP leadership with weapons to attack Deng’s economic liberalization policies, which they believe should be responsible for the 1989 Tiananmen Square Incident. Deng believed that only continued economic reform can save CCP’s rule and made a preemptive attack by making the surprise “southern tour” in early 1992.
He finally won the battle and confirmed China’s commitment to continued economic reform and opening up (Zhao 1993).

Military Capabilities gauged by military spending are largely depended on economic growth and government income. Based on China’s fast economic growth in the last few decades, it is not a surprise that China’s military spending is highly correlated with its GDP. As we discussed earlier, the increase of market development can cause economic growth. Therefore, it is quite understandable that CIE and Military Capabilities are highly correlated.

The correlations between micro-level variables and other variables are fairly weak (Table 4.2). Though the correlations among macro-level variables are not very strong, they are still moderately correlated. In order to avoid the collinearity problem, I first choose a basic model with CIE and micro-level controls only to predict leaders’ psychological variables (model 1s in Table 4.3, 4.4, 4.5). And then, I add the three macro-level controls individually to the basic model (model 2s, 3s, 4s in Table 4.3, 4.4, 4.5).

Since I have three dependent variables (P1, I1, Distrust), I use three different sets of statistical models to predict causes of these psychological changes. All three dependent variables are continuous, therefore linear regression models are used.

In the linear regression models predicting leaders’ philosophical beliefs (P1), CIE is always a significant predictor (Table 4.3, models 1-4). This confirms my hypothesis that with China’s increase of contract intensity, Chinese leaders’ worldviews become more peaceful. Both leaders’ age and experience living abroad are significant predictors of leaders’ worldviews across all models (Table 4.3, models 1-4).
Table 4.3: Leaders’ Philosophical Beliefs (P1) and CIE, 1949-2010

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIE</td>
<td>0.15***</td>
<td>0.25***</td>
<td>0.11***</td>
<td>0.19***</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.06)</td>
<td>(0.02)</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.01***</td>
<td>-0.02***</td>
<td>-0.02***</td>
<td>-0.01***</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.00)</td>
</tr>
<tr>
<td>Foreign Experience</td>
<td>0.28***</td>
<td>0.35***</td>
<td>0.18***</td>
<td>0.28***</td>
</tr>
<tr>
<td></td>
<td>(0.05)</td>
<td>(0.06)</td>
<td>(0.07)</td>
<td>(0.05)</td>
</tr>
<tr>
<td>Cold War</td>
<td>-</td>
<td>0.27</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rapprochement</td>
<td>-</td>
<td>-</td>
<td>0.18**</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.08)</td>
<td></td>
</tr>
<tr>
<td>Military Capabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-0.05</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.03)</td>
</tr>
<tr>
<td>Intercept</td>
<td>0.90***</td>
<td>0.91***</td>
<td>1.00***</td>
<td>1.54***</td>
</tr>
<tr>
<td></td>
<td>(0.20)</td>
<td>(0.20)</td>
<td>(0.20)</td>
<td>(0.44)</td>
</tr>
<tr>
<td>N</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Adj. R^2</td>
<td>0.72</td>
<td>0.73</td>
<td>0.75</td>
<td>0.73</td>
</tr>
</tbody>
</table>

Notes: One-tailed test, *p <0.10; ** p<.05; *** p< .01.

As expected, the older the leader, the more conflictual he views the political universe.

The results also suggest that leaders with experience living abroad normally have more favorable understanding of the world. The end of Cold War and change of China’s military capabilities seem irrelevant with change of Chinese leaders’ worldviews (Table 4.3, model 2 & 4). The U.S.-China rapprochement, on the contrary, does make Chinese leaders’ worldviews more peaceful as suggested by the results (Table 4.3, model 3).

The results of the linear regression models predicting leaders’ instrumental beliefs (I1) also largely confirm my major hypothesis that with the increase of China’s contract intensity
(CIE), Chinese leaders’ approach to reach their goals becomes more cooperative (Table 4.4, model 1 & 3).

Table 4.4: Leaders’ Instrumental Beliefs (I1) and CIE, 1949-2010

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIE</td>
<td>0.17***</td>
<td>0.15</td>
<td>0.13***</td>
<td>0.11**</td>
</tr>
<tr>
<td></td>
<td>(0.03)</td>
<td>(0.10)</td>
<td>(0.04)</td>
<td>(0.05)</td>
</tr>
<tr>
<td>age</td>
<td>-0.00</td>
<td>-0.00</td>
<td>-0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>(0.00)</td>
<td>(0.01)</td>
<td>(0.01)</td>
<td>(0.01)</td>
</tr>
<tr>
<td>Foreign Experience</td>
<td>0.12</td>
<td>0.11</td>
<td>0.04</td>
<td>0.12</td>
</tr>
<tr>
<td></td>
<td>(0.08)</td>
<td>(0.11)</td>
<td>(0.12)</td>
<td>(0.08)</td>
</tr>
<tr>
<td>Cold War</td>
<td>-</td>
<td>-0.05</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.29)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rapprochement</td>
<td>-</td>
<td>-</td>
<td>0.17</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.35)</td>
<td></td>
</tr>
<tr>
<td>Military Capabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.07</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.05)</td>
</tr>
<tr>
<td>Intercept</td>
<td>0.09</td>
<td>0.09</td>
<td>0.17</td>
<td>-0.82</td>
</tr>
<tr>
<td></td>
<td>(0.34)</td>
<td>(0.35)</td>
<td>(0.35)</td>
<td>(0.75)</td>
</tr>
<tr>
<td>N</td>
<td>53</td>
<td>53</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Adj. R²</td>
<td>0.43</td>
<td>0.42</td>
<td>0.44</td>
<td>0.44</td>
</tr>
</tbody>
</table>

Notes: One-tailed test, *p <0.10; **p<.05; *** p< .01.

Contrary to my expectation, neither leaders’ age nor foreign experience have any effect on their instrumental beliefs. All the macro context controls have no effect in predicting leaders’ instrumental beliefs. Probably because of the high correlation between the macro context controls and CIE, models 2 and 4 could be biased given the small sample I have (N=53).
In the linear regression models predicting leaders’ distrust level, again as I expected, CIE has a highly significant effect on leaders’ trait of distrust of others (Table 4.5, model 1-4). This result strongly suggests that Chinese leaders in more contract intensive years normally have lower level of distrust. None of the control variables is statistically significant in predicting the dependent variable Distrust.
Conclusion

Inspired by the economic norms theory, I mainly tried completing two tasks in this chapter: first, to explore whether expected changes would take place on individuals when China’s contract intensity increases; second, to test whether these changes in individuals can be predicted by contract intensity.

I chose the five Chinese top leaders as subjects of my study. I adopted widely used content analysis tools in political psychology as main methods. I also explained why I pick Chinese leaders as samples and why I use the content analysis methods.

As expected by the economic norms theory, the results of content analysis show that with the increase of China’s contract intensity, changes did appear on Chinese top leaders. More recent leaders normally regard the world in a more peaceful way. They tend to adopt more cooperative approaches to reach their goals. They have higher trust in others as compared to leaders in earlier years of the people’s republic. I further searched in the literature to confirm that the content analysis results are actually in accordance with historical facts.

Based on the content analysis data and CIE data, I constructed several different statistical models to test my hypotheses that such changes were caused by China’s increase of contract intensity. These small to medium N linear regression models (N=53) can also serve as tests of the validity of the economic norms theory about individuals’ changing heuristics in different political economies in the case of China. Though the statistical models may be coarse and the selection of control variables not perfect, the results of the statistical tests turned out be surprisingly good. They strongly support my hypotheses that the cultural change of a market society in China can have
significant influence on individuals’ beliefs and traits. The tests also confirmed the validity of the economic norms theory in predicting changes in the Chinese society.

Four decades of market-oriented economic reform and opening up have shifted China from a backward agrarian economy into a middle-income industrialized market economy. This chapter has demonstrated that this fundamental change may well account for the obvious differences in the Chinese leaders’ ideational world. The Chinese people, as a combined whole of individuals who engaged in the market more frequently than the top leaders do, must have experienced similar transformations. The next chapter will document such behavioral and cultural changes on the societal and national level.
Economic norms theory believes that the capitalist market development would bring significant cultural and institutional changes to the nation as a whole. Such change can be roughly grouped into two major categories: formal institutions and informal institutions. Formal institutions can include rule of law, democracy, and a strong and impartial state. Informal institutions may encompass social norms and values (Mousseau 2009; 2019). In the following sections, I will mainly document such changes in the PRC since its economic reform and opening up as compared to the years before 1978. The first section will document changes in formal institutions, and the second section will search for transformations in informal institutions. The third section will briefly discuss the implications of such changes.

**Formal Institutions**

The 1993 Nobel Prize laureate for economics and U.S. economist Douglas North famously differentiated between formal and informal economic institutions (1990). According to his definition, institutions are:
“…the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic.” (North 1990: 3)

“institutions are a set of rules, compliance procedures and moral and ethical behavioral norms designed to constrain the behavior of individuals in the interests of maximizing the wealth or utility of the principals” (North 1990: 201-202).

According to North (1990: 47), formal institutions include “political (and judicial) rules, economic rules, and contracts.” In other words, those “written rules” are formal institutions. The economic norms theory mainly focuses its discussions and analyses on three formal institutions: rule of law, accountability/democracy, and the strong and impartial state. All these formal institutions seem necessary conditions of contractualist economies. Without any of them, a robust and inclusive market may not function.

Rule of Law

The economic norms theory believes that the “democratic rule of law, once it has been legitimated by a contractualist economy, consolidates itself and the market” (Mousseau 2019: 165). The theory, therefore, regards market development as the cause of rule of law, and once rule of law is in shape, it can further protect and enhance the market.

The rule of law must first protect personal freedom, so every member of the market can make contracts freely (Mousseau 2013: 188). The rule of law must also protect property rights so participants in the market have basic security and will continue to invest or consume, thus further
promoting the vibrant and inclusive market (Mousseau 2019: 164). The rule of law must also ensure the impartiality of the state so all contracts can be fairly executed, and violators will be punished (Mousseau 2019: 165). In other words, the state must be under certain kind of restraints in order to maintain a trust among the population that it will have impartial and efficient enforcement of all contracts. Democratic elections are probably the most effective means so far to put such restraints on the state because leaders would be elected out of position by the population if they act impartially while in power. That is the reason Mousseau (2019) emphasizes “democratic” rule of law. Other factors could also influence the impartiality of contract enforcement such as independence of the judiciary, checks and balances among political institutions, power partition between central (federal) and local governments. Also, freedom of speech and freedom of press can also monitor the state and force the latter to play a just and fair part in enforcement.

As Peerenboom (2009: 55) cited Liu (1998), the following quote probably reflect how the Chinese state understands rule of law:

“At the most basic level, law is necessary to create and maintain a modern market: to establish property rights and a contract regime; ensure market equality and maintain market order by protecting against fraud, unfair competition, and monopoly; separate government from enterprises; establish and regulate financial and capital markets; and so on.”

China has a long history of “rule by law” instead of “rule of law”. Legalism, together with Confucianism, is another famous school of thoughts in ancient China. Though legalism emphasizes the role of the law, it is more like the oriental version of Machiavellianism (Mitchell
2015). It is more “teachings on how to rule the state by the prince” rather than the Western liberal concept of abiding the law as a social contract by all parties in the market. The legal system in Mao’s China (1949-1976) was also influenced by such tradition.

According to the PRC’s constitution, it practices a so-called “people’s democratic dictatorship.” The Maoist communists were never hesitated to claim that the legal system was just an apparatus of class oppression. That was a typical mindset of a clientelist society where out groups were regarded as enemy. Those who lost in the political power struggle or any dissident were all treated as an “enemy of the people.” In the climax of the Cultural Revolution, Mao smashed the state institutions he had led to build after the founding of the PRC. Most of the political establishment was deposed, and loyal Maoists snatched power. Liu Shaoqi, the President of the state and No. 2 in the Chinese Communist Party (CCP), was labelled a “big traitor, big thief in the working class, and a big spy” when he was cracked down by Mao at the beginning of the Cultural Revolution (Yue and Wakeman 1987: 241). He was later tortured to death without any trials. The highest legal institutions such as the National People’s Congress (the legislature), the Supreme People’s Court (the supreme court) and the Supreme People’s Procuratorate (the prosecutor general’s office) were either dismantled or ceased to exercise power during the Cultural Revolution.

After the death of Mao, the right wing in the CCP gained power and Deng Xiaoping led the party to reestablish state institutions, law and order. When China started its economic reforms and opening up in the late 1970s, Beijing knew that in order to gain confidence and trust in its market-oriented policies among domestic and foreign investors, it had to enact laws to ensure that investors’ rights would be protected. Without laws and regulations, a dynamic market
economy will not thrive. As discussed in Chapter 3, the positive feedback loop of reforms, economic development, and CCP legitimacy constitutes the fundamental reason for the party-state to promote economic development. The rule of law had shown its role in building a robust market economy and stimulating fast economic development in the West and in the Asian Tigers. Therefore, Beijing has a strong incentive to promote rule of law as well. I will document the development of rule of law in post-Mao China in the following sections.

*Personal Freedom and the Hukou System*

Personal freedom is the pre-condition of the market economy because without it nobody can make voluntary and equal contracts. The Chinese had little personal or economic freedom in Mao’s China, not to mention political freedom. The “market” was regarded as a symbol of Capitalism and was thus banned by the state in order to build a purely Socialist economy. All trades were prohibited, and the majority of the Chinese population did not have either freedom or surplus of goods to exchange. The party-state effectively locked down almost every Chinese in their places and did not allow voluntary mobility. The state used the *Danwei* (work unit) System to provide rent and protection to the working class living in cities, creating a so-called “organized dependency” (Xie et al. 2008). At the same time, the *Hukou* (household registration) System helped stop the flow of rural population to urban areas, resulting in an “infamous rural-urban ‘apartheid’” (Chan and Buckingham 2008: 583). Similar to the Soviet Union, using such restrictive control of the rural population, the PRC was able to complete its “primitive accumulation of capital” and speed up its industrialization (Lin and Wu 2010).
In 1982, the people’s commune policies were officially abolished and the so-called “household responsibility system” was adopted in rural areas. Farmers now had freedom to arrange their own agricultural production. They had more flexibility and control of their own time. Productivity was significantly improved with this policy change, and a great deal of surplus of labor occurred in the countryside. At the same time, the number of factories increased quickly in the southeastern part of the country where demand for labor was great.

The situation increasingly disclosed the fact that the *Hukou* system could restrain the supply of labor and finally harm economic development. The Chinese government then started to loosen control on the flow of the population. In 1984, the central government started to issue ID cards to all adult citizens lifting the restrictions on free travel of its citizens. In the same year, the State Council allowed farmers to settle in neighboring small and medium sized towns (Che 2019). In 1985, the central government practiced *Provisional Regulations on the Management of Transient Population in Urban Areas*, and since then all migrant workers were eligible to work in cities (ibid).

Some local governments in coastal provinces, now equipped with more autonomy after the reform, started to change their policies to accommodate the inflow of migrant labor. Especially after 1992 when the CCP decided to build “a socialist market economy,” various reforms have taken place concerning the *Hukou* System. Skilled workers, college graduates, investors, and anyone who could help economic development were welcomed in most cities. Except in some mega cities such as Beijing and Shanghai which have already had more than ten million population, many medium and small cities allow quick settlement of population from other places if they can secure a job and have an address.
Urban population increased significantly in the last four decades or so. In 1979, there were only about 19 percent Chinese living in cities. By 2010, that figure reached 50 percent. In 2019, there were 61 percent Chinese living in cities (Figure 5.1).38

However, the reforms so far still lag the development of the robust market. According to data from the National Bureau of Statistics, at the end of 2018, there were 286 million Chinese

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38 According to the definition of the National Bureau of Statistics, the rural/urban population data only count the “permanent residents” who live in a rural/urban area for more than 6 consecutive months in a certain year.
living in places where they did not have their household registered (BBC 2019b). In other words, almost one out of every five Chinese live in a place that is different from his/her *hukou* registration. Since the delivery of social welfare still relies on the current *Hukou System*, those 286 million people’s social welfare benefits were limited living in places different from their *hukou* registration. Since 2014, the State Council started a nation-wide reform aiming to cancel all limits on free settlement of the population by 2020 in small and medium sized cities with a population below five million. There are only 13 cities in China whose population is larger than five million. In those cities, limits also need to be significantly loosened (ibid).

The evolution of the *Hukou System* in China only reflects one basic part of the term “personal freedom,” which normally includes economic, social and political freedom. The great achievements the Chinese population have made in this regard do not mean that they enjoy high degree of personal freedom comparable to those in the contractualiast economies. Currently, political freedom such as freedom of speech and freedom of assembly are still seriously limited. According to Freedom House, China’s score is only 10 out of 100 in 2020.\(^\text{40}\) The Chinese party-state monopolizes political power and remains a highly repressive regime in the political sphere. But if we compare with the reality in the pre-reform era, the Chinese today probably enjoy the most economic freedom in the PRC’s history.\(^\text{41}\)

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39 These 13 cities with population larger than 5 million are: Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Chongqing, Wuhan, Chengdu, Nanjing, Zhengzhou, Hangzhou, Shenyang, Changsha (BBC20019b).

40 The Freedom House’s freedom score includes “political rights” and “civil liberties” and has a full scale of 0 to 100. For more details, see: [https://freedomhouse.org/country/china](https://freedomhouse.org/country/china)

41 According to the Heritage Foundation, China ranks 103 among 180 economies in terms of economic freedom in 2020. China’s ranking has been rising since the beginning of this index in 1995. For more information, see: [https://www.heritage.org/index/](https://www.heritage.org/index/)
Property Rights Protection

Another most important characteristic of market economy is the protection of property rights. People dare not enter a market where their property rights are not well protected. Policies such as nationalization of foreign investment will definitely lead to withdrawal of multinational corporations as happened in many Latin American countries in the last century (Andersson 1991).

Table 5.1: China’s Legal Reforms about Property Rights Protection

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Year Passed</th>
<th>Major stipulation on property rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Constitution &amp; its amendments</td>
<td>1982</td>
<td>“the state protects citizen's legitimate income, savings, housing and other legitimate property.* The state protects citizens' inheritance rights of private property in accordance with the law.”</td>
</tr>
<tr>
<td></td>
<td>1988</td>
<td>“The state allows the private economy to survive and develop within the limits prescribed by law.” “The private economy is a useful complement to the socialist public ownership economy”</td>
</tr>
<tr>
<td></td>
<td>1993</td>
<td>“The country implements a socialist market economy”</td>
</tr>
<tr>
<td></td>
<td>1999</td>
<td>“Non-public economy such as individual economy and private economy within the scope of law is an important part of socialist market economy.”</td>
</tr>
<tr>
<td></td>
<td>2004</td>
<td>“citizen’s legitimate private property is inviolable…the state protects private property rights and inheritance rights.”</td>
</tr>
<tr>
<td>General Principles of the Civil Law</td>
<td>1986</td>
<td>“Citizens' legal property is protected by law, and it is forbidden for any organization or individual to occupy, rob, break or illegally seal, seize, freeze or confiscate it.”</td>
</tr>
<tr>
<td>The Property Law</td>
<td>2007</td>
<td>“The property rights of the state, collectives, privates, and other rights holders are protected by law, and no unit or individual may violate them.”</td>
</tr>
<tr>
<td>General Provisions of the Civil Law</td>
<td>2017</td>
<td>Definition of “property” was expanded to include personal data and virtual property such as online digital service; definition of “property holder” was expanded to include newborn and even unborn babies; minors’ independent property rights were expanded; “public interest” and the procedure were specifically defined in the case of the state’s collection and requisition of private property.</td>
</tr>
</tbody>
</table>

Data Source: Ministry of Justice of the PRC. [http://search.chinalaw.gov.cn/search2.html](http://search.chinalaw.gov.cn/search2.html)

*Emphases added by the author.
Ownership of properties is another major difference between capitalist and socialist countries. In Mao’s China, the party-state worked hard to establish a pure socialist system with collective ownership. Private ownership of properties was heavily limited and sanctioned by the state. The properties of the rich capitalists and landowners were nationalized by the new government of the PRC in the early 1950s and were distributed to a larger population and won wide support among the Chinese. The state then took the land from the farmers and tried to build a pure Stalinist socialist economy. China was a very equal society because most of the population were equally poor. All economic resources were nominally owned by the Chinese people as a whole but actually were strictly controlled by the state. Poor and loyal supporters of the CCP were regarded as “red and expert,” while wealth was labelled as a sin. Even if people had wealth, it was useless because all products, no matter food or industrial products, must be purchased with government-issued coupons together with money.

Probably because of such reasons, the West was shocked when the Chinese paramount leader Deng Xiaoping declared in early 1980s that “to get rich is glorious.” After shifting to a

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42 The CCP’s land reform actually started as early as in the 1930s in several of its “revolutionary bases” where the party cracked down on landlords and distributed the confiscated land to landless farmers. During the Civil War (1946-1949), the CCP also adopted such policies in the territory controlled by itself and gained wide support from the farmers in its efforts to defeat the Nationalist government.

43 Some observers believe that it is a misquotation of Deng Xiaoping because there was no record showing him saying the same exact words. But he did specifically say “Poverty is not Socialism” and “to let part of people get rich first.” The misquotation probably came from Orville Schell’s (1984) book To Get Rich Is Glorious: China in the Eighties. For more details, see “Great
market oriented economy, the CCP understood well that the rules of the game needed to be changed, and without good protection of private properties, there would be no market prosperity.

Therefore, the state has made various major legal reforms to protect property rights. Table 5.1 shows the Chinese state’s legal activities in this specific area. At the beginning of the reform in early 1980s, the Chinese government lacked both expertise and experience in promulgating a comprehensive civil code. Therefore, in order to protect property rights, single pieces of legislation in certain sectors were passed such as Contract Law, Copyright Law, Trademark Law, Patent Law, Company Law, Securities Law (Wang, J., 2009).

According to the former chief economist of the World Bank Justin Yifu Lin, when Deng Xiaoping made the Southern Tour in 1992, the size of China’s nonpublic economy (including joint ventures and foreign investment) only occupied 14% of the total economy. In 2011, half of China’s GDP were made by the private economy. By 2017, private economy had contributed more than 50% of government’s tax income and 80% of employment (BBC 2018).

In recent years, China’s economy experienced a significant slowdown. The role of the private sector became more important in providing jobs for the population and maintaining social stability. In 2016, the CCP and the State Council issued a guideline to better protect property rights. The Supreme Court urged all local courts to urgently review all property-rights-related cases dating back to 1978. The court rulings in which private enterprises were found to engage in misconduct need to be carefully reconsidered (China Daily 2018). In 2018, the Supreme Court had a retrial of a case concerning a high-profile entrepreneur and private retail tycoon Mr.

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Wenzhong Zhang who was sentenced to 12 years’ imprisonment in 2006 based on charges of economic dispute. The Supreme Court corrected the ruling and declared Zhang innocent. This event was widely reported by Chinese and foreign media and was regarded as a signal of the CCP’s determination to protect private property rights and to promote rule of law (ibid).

Though in theory, private properties enjoy equal status with state-owned and collectively owned properties after the passage of The Property Law in 2007. In reality, there have been worries of “the state enterprises advance, the private sectors retreat” (ibid). In recent years, the Chinese government has made efforts to make state-owned enterprises “big and strong.” There were still obstacles for private enterprises to enter some sectors which were mainly occupied by state-owned enterprises (ibid). In September 2018, Jack Ma, Chairman of Alibaba, China’s e-commerce giant, who had inspired entrepreneurship in China, announced his retirement when he was only in his mid-50s. Speculations were wild about his deep worries of the future of private economy (ibid). Days after Ma’s announcement, one widely circulated article on social media instigated more fear. It called on the private economy to leave the market and claimed that its historical mission of assisting the state-owned economy has completed (ibid). One year earlier, another Chinese e-commerce giant JD.com’s founder Richard Liu said that artificial intelligence could help communism come true in his generation (Global Times 2017).

Facing such large scale of fears, the CCP started a charm offensive towards private enterprises since 2018. President Xi Jinping and Premier Li Keqiang have on various occasions encouraged the private economy to play a larger role in China’s future economic development. In a meeting with entrepreneurs in November 2018, President Xi said that private economy had contributed to the China miracle of economic development. It can only grow but cannot weaken.
It should not “leave the scene,” but should walk toward a wider stage.\textsuperscript{44} During the Summer Davos Forum held in Tianjin China in July 2019, Premier Li assured the audience that his government will attach more importance to the protection of foreign investors’ legal rights including strengthening the protection of intellectual property rights. Foreign companies would be treated equally with domestic ones.\textsuperscript{45} In December 2019, the CCP and the State Council issued an official document titled \textit{Opinions on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises}.\textsuperscript{46} Normally, various new policies and measures would follow after the party-state issued such guidelines on certain issues.

Piracy and violation of intellectual property rights (IPR) used to be rampant in China and foreign investors were the major victims. It was also a major issue of disputes and frictions between the United States and China (Li and Alon 2019). However, as China shifted from a more manufacturing-based to a more innovation-based economy, it is in its own interests to strictly enforce IPR laws. China’s private telecommunication company Huawei was the largest filer of patents worldwide in 2019. In 2014, for the first time in its history, China set up a few special courts in different cities to deal with intellectual property cases exclusively. In 2015, foreign plaintiffs brought 63 cases to the Beijing Intellectual Property Court and the latter ruled for foreign companies in all these cases (Zakaria 2020). In 2018, a special court of intellectual

\textsuperscript{44} Original source in Chinese cited from the website of CCP’s official newspaper \textit{People’s Daily}. Last retrieved on March 11, 2020 at: \url{http://cpc.people.com.cn/n1/2019/1224/c164113-31520491.html}

\textsuperscript{45} Original source in Chinese cited from China’s central government website. Last retrieved on March 11, 2020 at: \url{http://www.gov.cn/guowuyuan/2019-07/04/content_5405823.htm}

\textsuperscript{46} Original source in Chinese cited from China’s central government website. Last retrieved on March 11, 2020 at: \url{http://www.gov.cn/zhengce/2019-12/22/content_5463137.htm}
property was established in the Supreme Court. Since then, all cases of intellectual property would be handled in this court in order to unite legal standard and improve efficiency.\textsuperscript{47}

\textit{Restraints on the State}

As compared to the previous two sectors, China lacks major change in this regard despite of decades of market reforms. The CCP and its \textit{nomenklatura} monopolized political power, and democratic elections only happened at the village and township level. The judicial system is not independent and may be subject to interventions from local officials. The CCP leads everything and there is no such a thing of checks and balances among state institutions as often witnessed in Western states. People enjoy limited freedom of speech and all press is under strict scrutiny of the CCP.

While the above are all true, it is not easy to deny the fact that the Chinese party-state has been significantly under more restraints as compared to the situation in Mao’s era. As China started its economic reforms, Deng Xiaoping and the CCP leadership also proposed political reforms in the 1980s. The reform-minded CCP General Secretary Zhao Ziyang and his assistants had designed a blueprint of a gradual transition of the Chinese state from a Stalinist socialist state to a constitutional government with limited powers described by the constitution and laws (Wu 2014). Unfortunately, the military crackdown on the “Tiananmen protests” and Zhao’s purge afterwards meant the failure of such reforms. Economic and political reforms stopped and even

\textsuperscript{47} The State Council Information Office’s news conference on the establishment of the Intellectual Property Court in the Supreme Court on December 29, 2018. Last retrieved on March 09, 2020 at: \url{http://www.gov.cn/xinwen/2018-12/29/content_5353373.htm#1}. 
regressed in the post-Tiananmen years. After Deng’s Southern Tour in 1992, economic reforms restarted, but political reforms paused. Deng insisted on economic reforms but refused to give up one-party rule. All economic reforms actually should serve to increase the CCP’s legitimacy and strengthen its status as the ruling party. Deng himself picked two generations of loyal technocrat successors Jiang Zemin and Hu Jintao to faithfully implement his reform and opening up policies.

The Jiang and Hu administrations indeed continued Deng’s master plan. However, the market economy requires totally different rules of game as the planned economy. Many reforms designed to serve the needs of the market economy will in the end place limits and restraints on the power of the CCP.

First, the party-state can no longer rule the country by giving orders. The planned economy relies on orders from the center, but the market economy relies on the “invisible hand” of the market. In order to build a robust market, the party-state must retreat from a formerly all-powerful executor of the economy to become a more rule-maker and service-provider. The Chinese central government must learn how to make macroeconomic readjustments as many other governments in market economies do. In order to do so, the regulators must obey some basic principles of market economy which will no doubt put restraints on the Chinese government. Many high officials were themselves economists and some of them were trained in the West. Many believe Xi’s economic reform was heavily influenced by his top economic

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48 The current Premier Li Keqiang is an economist and got his Ph.D. degree in Economics from Peking University. Liu He, Xi Jinping’s top economic advisor and Vice Premier, is an economist and had been a visiting scholar twice at U.S. universities. He
advisor Liu He, who was trained at Harvard University and had been a visiting scholar twice at U.S. universities (Naughton 2016). Xi Jinping’s major economic reform, the so-called “supply side structural reform,” was regarded as “Reagan’s Chinese echo” by Western observers (Economist 2016). Reaganomics was famous for its tax cuts and limited government. The Chinese government under Xi and Li, therefore, promised to build a rule-based market-oriented economic regime. For example, Premier Li promoted the so-called “negative list” for foreign investors. Except for the restrictions clearly listed, all other sectors are open to foreign investment (Reuters 2019). In other words, the Chinese government now is restrained to place any restrictions on foreign investment other than those described on the list.

Second, in order to promote economic development, the CCP must assign those reform-minded and capable officials to the important positions. Officials get promoted mainly based on their performance rather than loyalty.\textsuperscript{49} Meritocracy becomes a most important criterion for officials’ promotion (Bell 2016). Therefore, local officials may choose to implement certain policies adopted by the central government only when they deem the policies beneficial to the local economy. Also, China is a large country with diversified local conditions. It is difficult for the central government to make one-size-fits-all policies. Therefore, it is a requirement for the local governments to have certain degree of autonomy in order to promote the local economy. Similarly, this would also lead to the local officials’ objection of Beijing’s orders. Former

\textsuperscript{49} This is not to hint that loyalty to the CCP center is not important in officials’ promotion, but to measure loyalty is difficult. Even within the loyal supporters, the CCP center picks the most capable ones to serve important positions.
Premier Wen Jiabao once complained that “the central executive orders were ignored beyond Zhongnanhai”\(^5\) (Ji 2017: 216). This partition of power between local and central governments has also placed some limits on the party-state.

Third, as discussed earlier, the fundamental restraint on the party comes from the CCP’s legitimacy issue. While the CCP now heavily relies on performance (economic development), any measures that may help stimulate economic development and at the same moment do not seriously undermine its rule, will worth a try to be applied. The economic development resulted from such reforms will in turn enhance the market as well as the new policies, making turning around even more difficult.

Since Xi Jinping became the supreme leader, the CCP has significantly tightened control on the country especially on party discipline, freedom of speech and freedom of press. In Hu Jintao’s era, discussions on topics such as constitutional government and intra-party democracy were popular among party officials and academics. Hu himself and other top leaders were said to have studied European social democracy (Xing 2009). Now, all party members are required to keep abreast with the party center and all such non-orthodox Marxist political discussions are forbidden (Fu and Buhi 2018). By 2018, around 350 thousand cadres had been disciplined (South China Morning Post 2018a). University professors were also ordered to stop any political discussions in classrooms, and online speech was strictly censored (The Washington Post 2017).

Most surprisingly, in 2018, Xi Jinping amended the constitution and removed his term limit. Almost overnight, Western observers changed their image of Xi to be very negative. While

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\(^5\)“Zhongnanhai” is a former royal garden beside the Forbidden City and is now the site of the office of the central government.
such anti-constitutionalist move is alarming for observers in liberal democracies, it is actually quite understandable for people in an axial economy where the concentration of power is expected to strengthen the state and bring more economic prosperity (South China Morning Post 2018b). The party-state is probably strong in outside observers’ impression but could be in fact much weaker. Xi Jinping blamed all problems such as corruption and low administrative efficiency to be the results of the weak party leadership. In theory, Xi Jinping could stay as the top leader without changing the constitution. The President in the Chinese political system is more an honorary position. His other two positions—Secretary General of the CCP and Chairman of the Central Military Commission—actually hold more real power. The amendment was to send a signal that the CCP’s leadership needs to be strengthened because in China the party is the state (ibid).

So far, we may be able to cautiously conclude that Xi Jinping is anti-democracy but not anti-market. That is the reason the CCP still pushes for more reforms in the rule of law because it is the foundation of a sound market economy. However, the Western liberal democracy might not be a necessary condition for market economy. Singapore offers a good example for that. More detailed discussion will be made in the next section of accountability.

To Measure China’s Rule of Law

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51 A recent good example of the weak state could be China’s poor handling of the COVID-19 epidemic at the early stage at the beginning of 2020. The provincial and city governments first tried to cover up and then handled poorly. The weakness of an inefficient and corrupt local government is obvious and self-evident. The central government then had to intervene by locking down the city and sending tens of thousands medical workers to contain the spread of the virus.
There are some quantified data available to measure China’s level of rule of law both horizontally (to compare with other states) and vertically (to compare with itself historically). The World Bank holds a comprehensive databank named Worldwide Governance Indicators (WGI). The WGI uses 30 different sources of survey data retrieved from general public, experts, entrepreneurs, private and NGO sectors around the world to compile 6 generalized indicators of governance: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.  

![Graph: China's Rule of Law Indicator: 1996-2018](image)

Figure 5. 2: China’s WGI Indicator of Rule of Law: 1996-2018  
Data source: Worldwide Governance Indicators (WGI), World Bank.

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52 For more details, visit the website of the Worldwide Governance Indicators (WGI) project:  
https://info.worldbank.org/governance/wgi/
The data start with year 1996 and end in 2018 with 20 annual data points. We can see from Figure 5.2 that China’s rule of law indicator increases significantly in time especially since 2012, the year Xi Jinping stepped into power. This is in accordance with my earlier observations that in recent years with the development of the market economy in China, the rule of law also strengthens. If compared with other major emerging economies, China’s performance

Figure 5.3: BRICS Countries WGI World Ranking in Rule of Law: 1996-2018
Data source: Worldwide Governance Indicators (WGI), World Bank.

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53 At the beginning of the project (1996-2000), the data were available bi-annually. After 2002, the data were recorded annually.

54 The indicator varies between -2.5 to 2.5. The larger the number, the stronger the rule of law. For more details, visit WGI website at: https://info.worldbank.org/governance/wgi/Home/Documents
also stands out. In Figure 5.3, I compare China’s rule of law indicator ranking in the world with those of other BRICS\textsuperscript{55} countries: Brazil, Russia, India, and South Africa. China’s world ranking in rule of law jumped from 131\textsuperscript{st} in 1996 to 105\textsuperscript{th} in year 2018 among all the 214 economies (the smaller the number, the higher the ranking). In the five major emerging markets, only China did better in 2018 than in 1996. All other countries’ worldwide ranking in rule of law dropped historically. Similar to the finding earlier, China’s rule of law in world ranking also increased quickly since 2012.

The World Bank’s another dataset \textit{Doing Business} project also contains some measures that may reflect China’s rule of law performance. Starting 2012, the project has been collecting data of objective measures of business regulations applied to small and medium-sized companies in 190 economies and the enforcement of such regulations.\textsuperscript{56} The indications recorded can mainly reflect the easiness of doing business in a certain economy. While many large companies are more welcomed by the state in many countries and may receive some special treatment, how easy the small and medium-sized companies can do business can more reliably reflect the market environment in a certain economy.

The project collects survey data of business regulations in ten different fields, most of which reflect how well those surveyed are treated by the state. The ten categories then are

\textsuperscript{55} BRICS is an acronym first created by one Goldman Sachs economist to refer to the five major emerging markets of Brazil, Russia, India, China and South Africa. The group had its first head of state summit in 2008 and now has regularized such high-level summit meetings annually. It is a loose group lacking characteristics of an international organization such as a secretariat.

\textsuperscript{56} For more details of the project, visit \textit{Doing Business}’s website: https://www.doingbusiness.org/en/about-us
generalized to an “ease of doing business” score ranging from 0 to 100. The larger the number, the easier to do business in a certain economy. In the project’s year 2020 report, China’s ease of doing business score ranks 31 among all the 190 economies documented. In the ten categories, there is one measurement “enforcing contracts” standing out. China ranks 5 in this category, significantly higher than in others. This result could reliably reflect the friendly legal environment China has for small and medium enterprises.

57 The “enforcing contracts” variable “measures the time and cost for resolving a commercial dispute through a local first-instance court and the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. The data are collected through study of the codes of civil procedure and other court regulations as well as questionnaires completed by local litigation lawyers and judges” (Doing Business). This measurement is also generalized from another 11 indices: Efficiency of resolving a commercial dispute, Assumptions about the case, Time, Cost, Quality of Judicial Processes, Court structure and proceedings index, Case management index, Court automation index, Alternative dispute resolution index, Quality of judicial processes index, and Reforms. For more details, see: https://www.doingbusiness.org/en/methodology/enforcing-contracts
Again, I compare China’s global rankings in these ten factors with the other four states in the BRICS group (Figure 5.4). The “Global Rank” is the ranking of the “ease of doing business” score. China only ranks a bit lower than Russia whose ranking is 28. In most of the categories, China does a better job than its peers. In the category of “enforcing contracts,” China ranks significantly higher than other emerging markets. India, the largest democracy of the world, ranks 163 in this category.

In conclusion, since the reform and opening up, China’s economy has experienced steady and significant growth, which is regarded by many economists as one of the few economic miracles in human history. Without reforms and progress in the rule of law, China’s market-
oriented economy could not have made such great achievements. In the economic side of the rule of law, China seems have performed well as Doing Business project’s data have shown. But on the political side, it may still take significant time for China to do better to build a “limited government” and to protect fundamental rights of the citizenry.

Accountability and Democracy

According to economic norms theory, the fundamental issue in building a contractualist economy is to ensure that the state enforces contracts impartially (Mousseau 2019: 164-165). Democracy is the best way to make the state accountable because “elections are the most intuitive means for maintaining pressure on the state to steadfastly promote economic growth, provide unyielding equal protection, and act impartially in enforcing contracts” (Mousseau 2019: 165). Therefore, almost all contractualist economies are democracies. However, not all democracies are contractualist economies. In other words, contractualist economy is a sufficient condition for democracy, but democracy is not a necessary condition for contractualist economy.

Could Democracy Harm Contractualist Economy?

There is no doubt that an impartial state needs accountability. However, democracy does not necessarily equal accountability, because democratic elections do not guarantee that the elected government/leaders are impartial and support contractualist development. The most important thing that matters is the voters. The reason why elections almost always produce impartial state in contractualist economies is probably because the majority of the voters benefit from a robust market and support market-friendly candidates. However, market economies sometimes
experience economic crises and people can seriously suffer from them. In such moments, minorities, immigrants or foreign countries can be blamed as scapegoats. Funke et al. (2015) studied 800 elections happened between 1870 and 2014 in 20 countries and found that after financial crises, voters were more attracted by political rhetoric of the far right, often filled with nationalistic and xenophobic tendencies. The rise of the far-right political parties in several EU member states after the global financial crisis well reflects the pattern. The rise of the Tea Party and the election of Donald Trump into the Oval Office a few years ago just echoed their European counterparts of such retreat of contractualist economies and values.

Table 5. 2: Contractualist Economies with Authoritarian Governments

<table>
<thead>
<tr>
<th>State</th>
<th>Year shift to Contractualist economy</th>
<th>Year shift to Democracy</th>
<th>Years of Contractualist Economy without Democracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>1983</td>
<td>1992</td>
<td>9</td>
</tr>
<tr>
<td>South Korea</td>
<td>1984</td>
<td>1988</td>
<td>4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1996</td>
<td>2008</td>
<td>12</td>
</tr>
<tr>
<td>Singapore</td>
<td>1994</td>
<td>?</td>
<td>2758</td>
</tr>
</tbody>
</table>

Data source: CINE Mar-2019b; Polity IV project

At the same time, though most contractualist economies are democratic, authoritarian government can also co-exist with contractualist economy. According to Mousseau (2019), from 1920 to 2010, there are 42 out of 1,463 nation-years of contractualist states that were without

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58 CIE data are only available till 2010. I assume Singapore continued to have a contractualist economy till 2020.
democratic institutions (Table 5.2). All such cases took place in four nations in East and Southeast Asia. Among the four states, three successfully transitioned to democracy within a short period of time (shorter than 12 years). Singapore is the only example that has a contractualist economy with authoritarian government for a considerable period of time. The ruling party People’s Action Party (PAP) has maintained a successful one-party rule since Singapore’s independence in 1965. The PAP still enjoys relatively high legitimacy among the population. In the last general election, the PAP won almost 70% of popular support (Freedom House 2019).

At the same time, some states whose economic transition started when they were already democratic usually stopped from continuing to be more contractualist. Some even regressed back to status economy such as Russia and Venezuela. Table 5.3 lists all the democratic axial economies in Latin America between 1960 and 2010. Not a single state in this sample whose economy entered axial stage when they were already democratic has finally transformed into a contractualist economy. In the three nations that democratic transition came after axial development started (Mexico, Panama, Chile), only Chile finally succeeded in transforming to a contractualist economy.


60 For a full list of the democratic axial nation-years, see Appendix III

61 For more details, see the codebook of CINE Mar-2019 at:
https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/8RPC9E
Table 5.3: Democracies with Axial Economy

<table>
<thead>
<tr>
<th>State</th>
<th>Year shift to Axial economy</th>
<th>Year shift to Democracy</th>
<th>Contractualist? Year?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jamaica</td>
<td>2005</td>
<td>1962</td>
<td>No</td>
</tr>
<tr>
<td>Trinidad</td>
<td>1993</td>
<td>1962</td>
<td>No</td>
</tr>
<tr>
<td>Mexico</td>
<td>1982</td>
<td>1997</td>
<td>No</td>
</tr>
<tr>
<td>El Salvador</td>
<td>1999</td>
<td>1984</td>
<td>No</td>
</tr>
<tr>
<td>Panama</td>
<td>1981</td>
<td>1989</td>
<td>No</td>
</tr>
<tr>
<td>Colombia</td>
<td>1996</td>
<td>1957</td>
<td>No</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1979</td>
<td>1958</td>
<td>No</td>
</tr>
<tr>
<td>Peru</td>
<td>2004</td>
<td>1980</td>
<td>No</td>
</tr>
<tr>
<td>Brazil</td>
<td>1995</td>
<td>1985</td>
<td>No</td>
</tr>
<tr>
<td>Argentina</td>
<td>1991</td>
<td>1983</td>
<td>No</td>
</tr>
<tr>
<td>Uruguay</td>
<td>1989</td>
<td>1985</td>
<td>No</td>
</tr>
</tbody>
</table>

Data source: CINE Mar-2019b; Polity IV project

In these three countries, only Chile’s authoritarian regime supported for market growth. Chile’s economic reforms were mainly designed and implemented by a few Chicago-trained Chilean economists nicknamed “Chicago Boys.” Many of them became high officials in the government of the military dictatorship of Pinochet (Silva 1991). American economist and Nobel laureate Milton Freedman called the Chilean economic development the “Miracle of Chile.”

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62 I normally treat a state as a stable democracy if it can stay democratic (Polity2 > 5) for at least 5 years. Some countries such as Chile, Uruguay had a stable democracy in history, then they fell back to authoritarian and back to democracy again. I use the most recent year in which they became a stable democracy. Polity4’s data date back to 1920.

63 Interview with Milton Friedman conducted by PBS on October 1, 2000. Last retrieved on March 15, 2020 at: https://www.pbs.org/wgbh/commandingheights/shared/minitext/int_miltonfriedman.html#10
Political leaders in Mexico and Panama did not have an interest to promote an inclusive market economy benefiting all citizens. Instead, they seriously involved in drug trafficking and distributed the yields to their in-group supporters (Patenostro 1995, Sullivan 2018).

Based on the comparison above, the successful stories of Taiwan, South Korea, Malaysia, and Chile seem to suggest that a market friendly authoritarian government plus contractualist market development help states’ smooth transition to a contractualist economy and democracy. Authoritarianism might be a “necessary evil” for such developing countries at the axial stage in their transition towards rule of law and democracy, because the repressive state could more easily force a larger population to accept market economy in relatively shorter time. While in democracies, it might take the country several decades even several generations for the market economy to be finally embedded into the society and facilitate rule of law and other market institutions.

Similarly, the stagnation of both economic development and market economy in most Latin American countries was probably a result of democracy without contractualist economy, because in a democratic state where contractualist economy has not taken root, market-related institutions such as rule of law are normally weak, and “elected leaders can distribute state rents to supporters with partiality rather than subsidize growth in the marketplace with impartiality” (Mousseau 2019: 165). In this way, the economic norms theory explains well the so-called “middle income trap”64 widely occurred in Latin America in the last few decades. The examples

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64 The “Middle Income Trap” is a term used by economists to refer to a “phenomenon of hitherto rapidly growing economies stagnating at middle-income levels and failing to graduate into the ranks of high-income countries.” For more details, see Aiyar et al. 2013.
above show that democracy under certain circumstances can indeed harm contractualist
economic development and rule of law.

*The Cat Teaches the Tiger: How China Learned from Singapore’s Experience*

Singapore stood out among the axial economies as it successfully transitioned to a contractualist economy, made great achievements in development and governance, and at the same time maintained a highly authoritarian yet stable state. After observing Singapore’s development level and governance-related indicators made by several international governmental and nongovernmental organizations, it looks obvious that Singapore’s one-party government has done a good job in most categories of economic development and institution building except in “voice and accountability” (Table 5.4). It has even surpassed many traditional contractually oriented economies in Europe and North America in many ways such as high degree of rule of law, a clean government, political stability, an effective government, and so on. The Singapore model probably is the goal that CCP wished to pursue—fast economic development can improve its legitimacy among the Chinese citizens and the stable authoritarian rule promises the basic safety of the party-state. Actually, the CCP did try its best to learn from the Singapore experience in the last three decades or so.

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65 Singapore’s Polity2 score remains the same from 1965 to 2010, which is -2, indicating a stable resilient authoritarian government.

66 Whether or not China can become a large-size Singapore of course does not rely solely on the CCP’s wishes since Singapore is just a small city state while China is the largest nation in the world. For more thoughts on this issue, see Thompson and Ortmann (2018).
Table 5.4: Singapore’s Performance in Various Areas

<table>
<thead>
<tr>
<th>Item</th>
<th>World Rank</th>
<th>Area</th>
<th>World Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Area</td>
<td>196</td>
<td>Rule of Law (WGI)</td>
<td>7</td>
</tr>
<tr>
<td>Population</td>
<td>114</td>
<td>Control of Corruption</td>
<td>3</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>8</td>
<td>Government Effectiveness</td>
<td>1</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>9</td>
<td>Political Stability</td>
<td>4</td>
</tr>
<tr>
<td>Clean Government</td>
<td>4</td>
<td>Voice &amp; Accountability</td>
<td>119</td>
</tr>
<tr>
<td>Rule of Law Index (WJP)</td>
<td>3</td>
<td>Regulatory Quality</td>
<td>2</td>
</tr>
</tbody>
</table>

Data source: World Development Indicators, UNDP, Transparency International, World Justice Project (WJP), Worldwide Governance Indicators (WGI)

Deng Xiaoping visited Singapore in November 1978 when the two states had yet established formal diplomatic relations. His major mission of that trip was to persuade Malaysia, Thailand and Singapore to help contain the threat of Soviet Union and Viet Nam in the region. Singapore was his last stop. He was deeply impressed by the economic achievements made by Singapore within only one dozen years after its independence. Deng modestly asked...

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67 Data are the most recent available year. Most are year 2018.

68 This was a very rare case in the history of the PRC’s foreign relations for its leader to visit a state without diplomatic relations. However, US President Richard Nixon and Singapore’s Prime Minister Lee Kuan Yew did visit China when their countries had not formal diplomatic relations with the PRC. Lee met Mao but did not meet Deng when he first visited Beijing in 1976. BBC, March 22, 2015. Last retrieved on March 13, 2020 at:

https://www.bbc.com/zhongwen/simp/indepth/2015/03/150318_liguangyao_china
then Singapore’s leader Lee Kuan Yew for suggestions on China’s development (Koh 2018). In 1992, during his Southern Tour in Shenzhen, Deng said that China should learn from Singapore and do a better job than the latter (ibid). After that, China sent hundreds of official groups to conduct studies on the Singapore model. By 2017, Singapore’s flagship institution of high learning Nanyang Technological University had trained around 16,000 officials from different levels of the Chinese government in its program specifically designed for Chinese officials (Liu 2017).

How can Singapore develop from a poor and chaotic city-state at the beginning of its independence to a highly industrialized modern state comparable to most developed Western countries within only a few decades? Quah (2018) concluded five “secrets” for Singapore’s success: pragmatic leadership, an effective public bureaucracy, clean government, education and competitive compensation, and learning from other countries. Actually, Xi Jinping’s new policies after he became the leader of the CCP had aimed at achieving similar goals such as building a clean government, strengthening rule of law and improving state capacity.

In present China, the party-state strongly supports market development because it enjoys great legitimacy dividends from the economic achievements resulted from market reform and opening up. That is the reason that though Xi Jinping has significantly tightened political control in recent years, he himself and other CCP high officials have repeatedly expressed their staunch support for market reforms, continued opening up and rule of law.
[The government will] “clean up rules and practices that hinder a unified market and fair competition, support development of private firms and stimulate vitality of all types of market entities...”

--Xi Jinping, October 18, 2017, Beijing

“We will make efforts to streamline access to our market, improve the investment climate, increase intellectual property protection and voluntarily increase the opening to the exterior...”

--Xi Jinping, November 28, 2018, Madrid

“The door of China’s opening up will only open wider and wider, the business environment will only get better and better, and the opportunities for global multinational companies will only be more and more...”

--Xi Jinping, October 19, 2019, Beijing.

In recent years, there are also doubts rising among academics and officials in the PRC that whether China could still learn anything from Singapore since it is already the second largest


70 “China’s Xi defends free markets as key to world’s prosperity.” AP News, November 28, 2018. Last retrieved on March 15, 2020 at: https://apnews.com/8fd0d10bc54949e2aed2cd7aae889513

71 “China President Xi Jinping says ‘only when China is good, can the world get better’ amid US trade war.” South China Morning Post, October 19, 2019. Last retrieved on March 22, 2020 at: https://www.scmp.com/economy/china-economy/article/3033694/chinas-door-will-only-open-wider-xi-jinping-tells-delegates
economy (Liu 2017). The answer probably is still a “yes.” China’s institution building such as
rule of law still has a long way to go. China’s indicators in the areas discussed above are far from
catching up with Singapore. The cost of the PRC’s highly repressive policies could also
overwhelm itself especially in difficult times such as the recent breakout of the COVID-19
pandemic. Some high government officials also warned that China could fall into the “middle
income trap” if further reforms were not to be adopted in the coming years.\footnote{Example includes warnings from Lou Jiwei, then Finance Minister in 2015 that China had a 50/50 chance of falling into the trap if no further reforms are made. Xinhua News Agency, October 23, 2017. Last retrieved on March 20, 2020 at:
http://www.xinhuanet.com/english/2017-10/23/c_136699982.htm}

China could learn from Singapore on poverty reduction such as its famous public housing
program.\footnote{A brief introduction can be found on the website of the World Bank: https://blogs.worldbank.org/sustainablecities/what-about-singapore-lessons-best-public-housing-program-world. Last retrieved on March 22, 2020.} The rule of the CCP in China is also dubbed by many political scientists as a
“responsive authoritarian” regime (Tang 2018). Surveys of public opinion show that the majority
of Chinese respondents believe that the Chinese government responds to their needs. For
example, the Asian Barometer Survey conducted in 2008 demonstrates that 78 percent of
mainland Chinese respondents agreed with that assertion. Singapore ranked two with 66 percent
of respondents believe their government is responsive. The percentage of such respondents goes
much lower in Asian democracies such as Japan (33), South Korea (21), and Mongolia (25)
(ibid). These results intuitively turned against conventional wisdom that democracies would
respond to the needs to their constituencies because of the accountability issue.
While tightening his control on the Chinese society, Xi Jinping seems to have already realized that repression itself is not enough. By responding to social needs, Xi started a massive poverty reduction campaign in 2015 and promised to wipe out poverty in China by 2020. The party-state has thus far mobilized significant amount of resources towards this goal. Billions of dollars have been spent on various projects and initiatives across the country to build roads and other infrastructure to help poor remote villages connect with the outside world. State-owned enterprises have also joined to make huge investment in poor areas (CNN 2019).

In conclusion, the different stories discussed above between the successful Asian economies and the failed Latin American states seem to show that “premature” democratization could harm contractualist market development in axial economies like China. In extreme cases, it may help anti-market forces within the ruling party gain power and reverse the transition towards contractualist economy and rule of law (Mousseau 2019). This was exactly what happened after the Tiananmen Square Incident. All political reforms stopped. Most market-oriented reforms retreated, and liberal-minded officials were either purged or sidelined (Washington Post 2019). Zhao Ziyang, the General Secretary of the CCP, a sympathizer of the student protestors, was kept under house arrest until his death in 2005 (New York Times 2005).

More “surprisingly,” survey data later disclose that the Tiananmen protests were actually more anti-reform rather than pro-democracy (Tang 2018). Respondents care more about inflation rather than freedom of speech. Had the Tiananmen Square Protests succeeded, probably the anti-reform leaders would also win elections and then return back to the old system (Tang).

If it was not Deng Xiaoping’s Southern Tour in 1992, China’s economic reform might have to wait another ten or even more years to restart. Let us assume, if without Korea’s Park
Chung-hee, Taiwan’s Chiang Ching-kuo, Singapore’s Lee Kuan Yew, Malaysia’s Mahathir Mohamad, and China’s Deng Xiaoping, today’s East Asia would be a totally different picture. This sarcastic result of a “dictator” pushing for market economy again demonstrates that “premature” democratization may not be a popular option at least in Asian circumstances. It will only do harm to contractualist market development and finally to democracy itself. The Asian experience again informs us that we might have to accept the necessary “evil” in order to reach a “better” destination.

States’ Capabilities

The economic norms theory regards a strong state the necessary condition of the contractualist economy, because without it, violators of contracts could escape without punishment and a fair and just marketplace would not be created (Mousseau 2019). In a similar sense, Max Weber (1946) defined the state as the only “legitimate” user of violence in a certain territory. By definition, state violence is legitimate because it is designed for impartial enforcement and good order of all (rule of law). The reverse may also stand that the state violence in contractualist economies is strong because it is legitimate and is supported by the majority of the community. At the same time, the state must monopolize use of violence so it can effectively deter any potential political challengers to impose orders other than the market order on the territory. Therefore, normally contractualist economies have strong state capacities in various institutions:

74 All of them are regarded as “dictators” by Western media, but all of them promoted economic development and are still highly popular and respected within their respective countries because of the fast market development during their terms. For example, Mahathir was democratically elected Prime Minister of Malaysia in 2018 when he was 93 years old.
the legislature (to initiate laws serving broad market interests and order), the judiciary (to enforce contracts impartially), the police and military (to punish violators of market order domestic or foreign), and the executive (to mobilize resources and implement policies for better market development).

China has a long tradition of strong state capacities. Historian Wittfogel (1957) argued that in so-called “hydraulic civilizations” which China’s is a member of, a strong state is a must because management of floods and irrigation requires substantial and centralized control. Agents of the government had to monopolize political power and dominate the economy, which leads to an absolutist managerial state. The CCP defeated the Nationalists mainly because of its highly efficient organization and powerful mobilization of the population. The nascent PRC, though at a very low development level, demonstrated a surprisingly high efficiency and ability in personnel mobilization, resource allocation and military fighting during the Korean War. Unfortunately, the state capacities were seriously undermined in the Cultural Revolution. State institutions such as the legislature and the judiciary all ceased to function. All laws, including the Constitution, was repealed. Therefore, when Deng Xiaoping became the leader of the CCP, his first steps were to rebuild the state capacity.

The magnitude of state capabilities is based on two factors. First, as I discussed earlier, legitimacy is the basis for state capacity. The two most short-lived empires in China’s history were actually the two most capable dynasties: Qin and Sui. The Qin empire standardized the currency, weights and measures, scripts after it defeated other warring states and unified the
whole of China. It also built the Great Wall and several other massive projects.\textsuperscript{75} Sui built the 1,100-mile long Beijing-Hangzhou Grand Canal and first created the imperial examination to select talents from the whole population. However, the brutality and highly repressive nature of the two dynasties cost them the legitimacy among the population. Both lasted only a few decades, while other major unified empires in history such as Tang, Song, Ming, and Qing normally lasted more than two hundred years. Therefore, the party-state, though highly authoritarian, works hard to promote economic development and people’s living standards.

Second, strong state capacity needs a highly capable bureaucracy. Free or affordable public education and selection of bureaucrats based on merit are both a requirement by capitalist economic development. It is not a surprise that modern education started after the industrial revolution in Europe and North America and was influenced by the rise of nationalism and democracy (Reisner 1922). The earliest Western civil service examination started in Great Britain when the Civil Service Commission was established in 1855 (O’Toole 2006). It served the purpose of ending nepotism and selecting civil servants based on merit but influence (Walker 2003).

The Chinese national college entrance examination, which was cancelled in the Cultural Revolution,\textsuperscript{76} was restarted by Deng Xiaoping in 1977, only a few months after he came back to

\textsuperscript{75} Qin did not build the Great Wall from scratch. It connected the walls previously built by itself and other states and added a few sections. Even though, it cost the empire huge wealth and losses of labor. Qin also built some massive projects such as the first emperor’s tomb.

\textsuperscript{76} College candidates were recommended by party committees after the examination was abolished in 1966. Patronage and despotism ruled over merit in talent selection.
the power center. Most importantly, the examination did not discriminate candidates from “bad classes.”\(^{77}\) In 1994, the Chinese government started its first annual civil service examination. All eligible Chinese citizen were allowed to participate. In 2006, the top legislature National People’s Congress even passed a piece of law to institutionalize the selection process. It describes the purpose of this legislation as “regularizing the administration of public servants, safeguarding their lawful rights and interests, improving supervision over them, building up a contingent of public servants with high quality, promoting a diligent and clean government and enhancing its efficiency.”\(^{78}\) As mentioned earlier, governments on various levels have also assigned large number of civil servants to be trained in foreign countries such as the United States and Singapore.

**Measurement of State Capacity**

The World Bank’s Worldwide Governance Indicators (WGI) project holds a measurement for government effectiveness, which could serve as a gauge of nations’ state capacity. According to the project, government effectiveness “captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.”\(^{79}\) Similar to other indicators of the WGI, the “government effectiveness”

\(^{77}\) In Mao’s time, students with family background of capitalists and landlords were excluded from the exam.


\(^{79}\) For more details, see the website of WGI at: [https://info.worldbank.org/governance/wgi/](https://info.worldbank.org/governance/wgi/)
indicator is also generalized using multiple sources of data and the final score measuring government effectiveness is comparable across nations and years. Studying a sample of 162 states covering 11 years (1996-2010) with data of “government effectiveness” and “contract intensity,” I find with no surprise that states with contractualist economies perform significantly better than non-contractualist states. The mean score of government effectiveness (GE) for contractualist countries is 1.44, and the mean score for non-contractualist economies is -0.49. In other words, on average, a state’s capacity can increase 1.93 points if transitioned from a non-contractualist economy into a contractualist one. This difference is indeed remarkable considering the scale of the value of this indicator, which is from -2.5 to 2.5. The difference between status economies and axial economies is also not trivial. The mean of the GE score for all status economies in this time period is -0.69, and the mean score for axial states is 0.20, a 0.89-point increase of state capacity. The overall correlation between contract intensity and government effectiveness in my sample data is as high as 0.89, and it is statistically significant (P<.0000). These statistical relations strongly support the prediction of the economic norms theory that contractualist development can improve states’ capabilities.

The same correlation is also discovered in the case of China. Figure 5.5 shows the historical change of China’s government effectiveness as well as its contract intensity from 1996 to 2018. Both indicators increase significantly in the last two decades, indicating the fast

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increase of China’s contractualist economic development and its state capabilities. A clear correlation exists between the two variables.

![Graph](image_url)

**Figure 5.5: China’s Government Effectiveness and Contract Intensity: 1996-2010**

Data source: WGI, World Bank; CINE Mar-2019b

The World Bank Statistical Capacity Indicator (SCI) provides another way to measure one branch of states’ capacities—statistical capacity. Status economies either have no will or ability to record detailed data of the economy. Economic norms theory believes that “status regimes tend to repress out-groups and conceal economic data, in order to hide their corrupt redistributions of state funds to supporting networks” (Mousseau 2019: 182). Also, the share of informal economy in status states is normally high, and many economic actors are not registered
with the government. Therefore, status governments cannot effectively track economic flows (Codebook of Mousseau 2019).

The SCI of the World Bank defines “Statistical Capacity” as “a nation’s ability to collect, analyze, and disseminate high-quality data about its population and economy.”

It tracks 140 developing countries on their capabilities to collect and release economic data, according to international standards and timeliness. Figure 5.5 demonstrates a steady growth of China’s statistical capacity in the last decade as compared to the average level of statistical capacity in the East Asia and Pacific region as well as that of all World Bank members (IBRD) excluding high-income ones. While the two average data do not change much, China’s statistical capacity score quickly caught up and surpassed both average levels of score in recent years.

![Figure 5.6: China’s Statistical Capacity: 2004-2009](http://datatopics.worldbank.org/statisticalcapacity/)

Data source: Statistical Capacity Indicator (SCI), World Bank

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82 For more information, visit the website of the SCI, World Bank: [http://datatopics.worldbank.org/statisticalcapacity/](http://datatopics.worldbank.org/statisticalcapacity/)
Some developmental economists also use the ratio of tax to GDP to measure states’ fiscal capability (Besley and Persson 2013), which is the foundation for states’ spending and provision of public goods. Contractualist economies normally can collect high level of tax because of transparency of the economic data and strong ability to track all economic flows. Status economies, on the contrary, cannot collect good amount of tax because of its poor statistical capacity as discussed above and a lot of in-group exchanges (informal economy) are not captured by the state.

Figure 5.7: The PRC’s Tax Income and Economic Size: 1979-2019
Data source: National Bureau of Statistics, PRC
Figure 5.6 shows the annual revenue and gross domestic product (GDP) data of the PRC between 1952 and 2019. Before 1979, revenue was the direct income of the PRC government. Under the planned economy, the state controlled the whole economy including the national income and spending for public and private purposes. After economic reform, China gradually liberalized the economy and privatized some state assets. The government revenue naturally declined when private income was not counted in the governmental revenue. In 1994, the Chinese government adopted a major reform in its tax system and its revenue has increased steadily ever since (Chen 2008). It is not an accident that China’s economy took off around 1994 and its economy size increases significantly and steadily since then. In 2019, most of the government revenue came from tax (83%).

In Informal Institutions

Institutions, in North’s (1990:201-202) understanding, not only include “a set of rules, compliance procedures”, but also are “moral and ethical behavioral norms.” Whether formal or informal, institutions are “designed to constrain the behavior of individuals in the interests of maximizing the wealth or utility of the principals.” Casson et al. (2010: 137) argue that informal institutions such as norms and customs are “regulating socio-economic life, and… they determine each individual’s position relative to others.” Therefore, these informal institutions

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83 Data from the website of the central government of the PRC. Major tax categories include 13 different taxes such as value-added tax, sales tax, consumption tax, personal income tax, etc. For more details, see: http://www.gov.cn/xinwen/2020-02/10/content_5476906.htm
must “be included in all socio-economic analyses of institutions.” While these institutional economists focus on how institutions may affect economy activities, Mousseau emphasized more how economic conditions determine institutions and values.

According to Mousseau (2019: 164), “contractualist economic norms produce a mental model that values universal freedom (to engage in contracts), equity (equality in contract law, so that strangers can trust contractual commitments), equal protection of property rights (so that the state’s commitment to impartially enforcing contracts can be trusted), and an ever growing economy (for increased opportunity in the marketplace),” in contrast, status economic norms produce “a habit of mind—or mental model—that values loyalty, hierarchy, and conformity to the collective.” Also, values such as individualism and interpersonal trust will rise in contractualist societies because of personal freedom and repeated interactions with strangers in the marketplace protected by an impartial state (Mousseau 2009; 2019).

The remarkable economic development in the last four decades in China has fundamentally changed the Chinese society. The American-Chinese sociologist Yu Xie vividly commented that the magnitude and significance of such change in China since 1978 should never be underestimated in the last few decades even compared other important watersheds in human civilization.

“Since 1978, China has been undergoing a social transformation whose scope, rapidity, and significance in impact are unprecedented in human history. I hold the view that China’s ongoing social transformation since its economic reform is a watershed event in long-term world history, comparable in significance to the Renaissance that began in 14th-century Italy, the
Protestant Reformation in 16th-century Germany, and the Industrial Revolution in 18th-century Britain.”

Yu Xie (2015:3)

It might not be feasible for this study to document such comprehensive social change of values within a section of one chapter, but I try to look into the following topics of value change which are in my opinion directly caused by the development of the market economy: the rise of individualism, and the increase of interpersonal trust.

The Rise of Individualism

Economic norms theory regards the freedom to make contracts in the marketplace as the foundation of the market development. It is also the pre-condition for individuals to break off from status networks (Mousseau 2009; 2019). Individualism rose when capitalism started to expand in Europe during the Renaissance and the Enlightenment (ibid). China’s modern version of individualism first started to show its traces in the May Fourth Movement in 1919 and was seriously suppressed after 1949 (Xu 2009). Though the communist China revolutionized China’s traditional culture, one thing remained the same: loyalty to collective entity. Instead of promoting loyalty to the empire and the emperor, the party-state now endorsed loyalty to the party and Chairman Mao himself. The status nature of the Chinese society did not change much. The totalitarian essence of the communist regime did not give individualism a chance (ibid).
As discussed earlier, when economic reforms began in the early 1980s, the old planned economy system broke, and people were forced to seek opportunities in the marketplace. Their increased economic freedom became the pre-condition of the rising individualism. Individualism was revigorated in the early 1980s and has risen to be more observable especially in the last two decades along with China’s fast economic rise and market development (Xu 2009). Several empirical researches using different sources of data have found such increasing significance of individualism in the Chinese society.

Using techniques of content analysis in the frequency of use of certain words or characters in names, songs and attitudes, Zou and Cai (2016) discovered the rise of elements of individualism among the Chinese in the last few decades. Parents’ choices of their children’s names, in their understanding, vividly reflected the change of values of the parents. The study of the frequency of characters used in babies’ names from 1950s to 2000s shows that Chinese parents became more likely to use atypical and obscure characters to name their babies, showing a change of individualistic values. Zou and Cai (2016) searched two different kinds of first-person pronouns—singular (I, me, and mine) and plural (we, us, and ours)—in the lyrics of the most popular songs in China from 1970 to 2010, and discovered that the frequency of the usage of singular pronouns in popular songs increased swiftly and steadily. Plural pronouns, on the contrary, have been less frequently used in popular songs. Using World Value Survey (WVS) data of respondents’ attitudes towards leisure time and work, Zou and Cai (2016) found significant generational changes among different age groups with the younger generation increasingly emphasize personal leisure time over work.
Using three different waves of survey data pooled in the WVS from surveys conducted in China in 1990, 2001, and 2007, Steel and Lynch (2013) discovered that high individualism was significantly related with respondents’ subjective well-being (SWB), while low-individualistic respondents had declining SWB.

Based on semantic analysis of slangs used by the Chinese millennials as well as data collected in field studies in several places in China in multiple years, Moore (2005) discovered significant generational differences in individualism between the millennial youth and their parents who grew up in the Cultural Revolution. Though data show parents group normally have more collective values, they actually show much tolerance on the individualist values in their child’s slangs, which suggests such individualist values are politically and culturally right.

Liu and Wang (2009) analyzed the contents of debates among college students in China from 1980 to 2000 and discovered prominent temporal differences in students’ values. More recent college youth are more likely to have a strong self-consciousness, focus on materialist achievements, and adore those who have attained individual success.

Koch and Koch (2007) conducted two experiments among college students in different cities in China and found students in the more developed city demonstrated stronger individualistic values, suggesting the link between economic development and value change.

Interpersonal Trust

Economic norms theory corroborates from survey data that interpersonal trust in two different kinds of societies, contractualist and status, can be significant (Mousseau 2009). In contractualist
economies, people “habitually trust strangers in making contracts and depend on the state to enforce them impartially” (Mousseau 2009: 53). While in status economies, individuals only trust in-group members and group leaders. Distrust in strangers normally is high.

The World Values Survey has conducted six waves of surveys in many countries including China since 1990. In the survey, the respondents were asked one question which can reliably gauge their trust of others: can most people be trusted? The percentage of the respondents with a positive answer can largely measure the degree of interpersonal trust in a certain country. A comparison of trust level in China with that in other major economies shows that the Chinese people have a very high level of trust. It leads most countries and is only after the Netherlands (Figure 5.8).

84 The first wave (1990-1994) of survey did not include China. For more details, visit: http://www.worldvaluessurvey.org/wvs.jsp
Figure 5. 8: Interpersonal Trust Level in Major Economies: 2010-2014

Data source: World Values Survey (2010-2014)

All waves of WVS surveys ask the same question to respondents, which makes historical comparison possible. I draw the same data from the five waves of the WVS surveys done in China since 1990. The percentages of respondents answering “most people can be trusted” in different years remain relatively stable in China (Figure 5.9). The increase of the trust level from wave 5 (2005-2009) to wave 6 (2010-2014) however is significant. This reaffirms my observations in other models that China’s market institutions and norms have been increasing remarkably in the last decade.
In this chapter, I mainly documented changes caused by contractualist development in China on the national level since the reform and opening up. Following a categorization of formal and informal institutions, I searched in literature and data about institutional changes in rule of law, accountability, state capacity, and normative changes in individualism and interpersonal trust.

The rich literature and survey data confirmed my expectation that contractualist development gradually brought significant transformations to the state and the society. I argue that Deng Xiaoping’s reform and opening up was a fundamental change for the CCP facing its ruling crisis at the end of the Cultural Revolution. Once the party-state changed the game from a planned economy to a market economy, it must follow the basic rules of the market, otherwise economic development will not happen with reforms. Rule of law is the foundation of the market.
economy. Therefore, ample data support my expectation that the CCP seriously pushed for rule of law.

China’s market-oriented reforms did not come from nowhere but was a process of learning experiences from other Asian nations especially the Singapore model. Accountability is a requirement to hold the state responsible for impartial enforcement of contracts and promoting market development. However, I argue democracy may not come soon in China. The Asian experience informs us that democracy will have to come after a long time of contractualist development with a strong and authoritarian state. The increase of state capacity is the major change I discover among the three formal institutions.

With more capability-building commitment made by the CCP to improve its rule, I expect further reforms beneficial for contractualist development in China. The rise of contractualist culture such as individualism and interpersonal trust will in turn become so-called “social capital” to further nurture a robust and inclusive market economy.
CHAPTER 6: ANALYSIS ON THE INTERNATIONAL LEVEL: MARKET ECONOMY AND CHINA’S CONFLICT BEHAVIOR

As discussed in the introduction, the change of a nation’s domestic economy will likely cause changes in that country on three different analytical levels: individual, national and systemic. Chapter three documents the economic changes taking place in China over the past four decades, and the previous two chapters explore the social and political transformations caused by contractualist economic change at the national and individual levels, as predicted by economic norms theory. This chapter will focus on the search for change in China’s behavior on the interstate level (i.e. systemic level). As contrasted to the previous two chapters, this chapter will mainly use quantified data to observe changes in China’s behavior at this level. Also, statistical models will be applied to test the significant connections between contractualist economic development and international conflict behavior.

Earlier statistical tests have confirmed that contractualist economy has a pacifying effect on states’ conflict behavior, either on the dyadic or monadic level (Mousseau 2009). First, on the dyadic level, there is a peace among contract-intensive states. As mentioned earlier, there has never been a single battle-related death in combat between two contractualist nations. Second, on the monadic level, contractualist nations are in peace with all nations, regardless of economic type, that abide by their preferred rules of the global order, meaning respecting the principles of territorial integrity and self-determination for all nations (Mousseau 2019).
Though the economic norms theory has long noticed institutional and social change in the so-called “axial-capitalist” societies (i.e. those transitioning societies from a status to contractualist economy) (Mousseau 2009, 2019), there has not been a detailed case study done yet on the pacifying effect of contractualist economic development in an axial-capitalist society.

As discussed in Chapter 3, China is a typical example of an axial-capitalist state. Within about three decades, China evolved from a closed backward agrarian country to the second largest economy today. It is also the biggest exporter of merchandise and largest trading nation of the world. Such a significant change in its economic development must have transformed China’s economic institutions and social values, which have been vividly documented in the last two chapters. If economic norms theory upholds, such economic change should have changed popular values and interests. As I discussed in Chapter 3 and 5, the priority of the Chinese Communist Party (CCP) is to maintain its legitimacy and remain as the ruling party forever. Economic development is the major foundation that the CCP now relies on to maintain and promote its legitimacy. Nobody denies the fact that market economy can greatly develop China’s economy and bring benefits to its population. The CCP’s legitimacy is significantly enhanced because of the economic development. Therefore, it is safe to assume that the CCP has a strong desire to promote market growth both domestically and overseas. President Xi Jinping’s recent remarks to support the development of private economic sector as well as his grand strategy of “one belt and one road” are good examples to support such an assumption (The Wall Street Journal 2019).

In the following parts of the chapter, I will first briefly review China’s international conflict behavior from 1949 to 2010 citing the data documented in one of the most renowned
datasets in conflict and security studies—the Correlates of War’s (COW) Military Interstate Disputes dataset (MIDs v4.3) (Palmer et al. forthcoming). I will also compare China’s conflict behavior to that of other major powers, in order to find any pattern of foreign behavior unique to its own. Then, I will use large-N regression models to test the main hypothesis that China’s foreign conflict behavior was significantly conditioned by its contractualist economic development. Finally, a conclusion and discussion part will follow offering more qualitative observations and assessments of China’s change in conflict behavior, especially in the last two decades when China entered the axial period.

China’s Conflict Behavior in Different Times: A Historical Comparison

I rely on the Militarized Interstate Disputes data set (MIDs V 4.3) in the Correlates of War (COW) project to retrieve data of China’s conflict behavior. The reasons why I choose this dataset are multiple. First, past research on China’s conflict behavior, either in China or elsewhere, dominantly used small-N descriptive cases to test their hypotheses. Such research may be rich and deep, but also could possibly miss the “forest” by looking only at specific “trees.” In social science studies, researchers are normally discouraged to choose those “convenient” cases to support one’s hypothesis, which is vividly analogized as “cherry picking”

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85 The dataset records militarized interstate disputes for all nation states in the international system between 1816-2010. For more information of the COW project and the MID dataset, visit the COW website: http://cow.dss.ucdavis.edu/data-sets/MIDs
(Moravcsik 2014). Using large exhaustive cases that the dataset documents and preassembles, researchers can at least avoid accusations of such selection bias.\(^{86}\)

Second, it is one of the most commonly used datasets in the fields of International Relations, Peace and Conflict, or Security Studies. The dataset systematically recorded all possible international disputes concerning the use or threat of use of military force by all nation-states in a wide time span of 194 years (1816-2010) with as many as 2,586 militarized interstate disputes (MIDs) documented.

Third, it is so far the best source of data recording China’s conflict behavior as compared to other widely used datasets, such as the Issue of Correlates of War (ICOW), which documents limited data so far, or the UCDP/PRIO Armed Conflict Dataset, which included too limited data concerning China.\(^{87}\)

A primary examination of the information documented in the MIDs (V4.3) dataset can give us a basic picture of China’s conflict behavior between 1949 and 2010. As defined by the MIDs dataset,

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\(^{86}\) This is not to say that the MIDs dataset has no errors or biases. All the incidents recorded by the dataset were documented and researched by human researchers who mainly relied on news reports from 15 main news agencies to retrieve information about the recorded militarized interstate disputes. While errors or biases are inevitable, researchers using this dataset can at least avoid conscious systemic selection bias.

\(^{87}\) The ICOW dataset includes contested issues such territorial claims between states. The data only cover the years 1816 to 2001. For more information of the ICOW dataset, see [http://www.paulhensel.org/icow.html](http://www.paulhensel.org/icow.html). The UCDP/PRIO Armed Conflict Dataset only includes 29 country-years of armed conflict concerning China in the time period of 1946-2008. For more information, visit: [https://www.prio.org/Data/Armed-Conflict/UCDP-PRIO/Armed-Conflicts-Version-X-2009/](https://www.prio.org/Data/Armed-Conflict/UCDP-PRIO/Armed-Conflicts-Version-X-2009/).
“militarized interstate disputes are united historical cases of conflict in which the threat, display or use of military force short of war by one member state is explicitly directed towards the government, official representatives, official forces, property, or territory of another state. Disputes are composed of incidents that range in intensity from threats to use force to actual combat short of war” (Jones et al. 1996: 163).88

Within each case of MIDs, the data set records other information such as the dates the incident began and ended, participants in the conflict, the levels of violence reached by each participant, and so forth. Based on the degree of violence, the MIDs dataset documents the hostility level shown by each state involved in each militarized dispute. It codes hostility levels as: 1) no militarized action; 2) threat to use force; 3) display use of force; 4) use of force; and 5) war. Not all states involved in a MID necessarily need to demonstrate military behavior. They may display no military action at all and responded peacefully when confronted by violent provokers. They may also threat to use force or display military capabilities. However, these three categorizations in the degree of hostility normally do not indicate states’ actual use of

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88 This is the official definition of MIDs listed on the website of the MIDs dataset of the COW project. The dataset records not only low intensity disputes such as threats to use force, but also includes high intensity disputes such as interstate wars. For more information, see: [http://cow.dss.ucdavis.edu/data-sets/MIDs](http://cow.dss.ucdavis.edu/data-sets/MIDs)
force.\textsuperscript{89} I, therefore, define both “use of force” and “war” in the last two categories as my version of “use of force” within this chapter.\textsuperscript{90}

As far as the PRC is concerned, the MIDs (v4.3) dataset documents data of its military conflicts in a time span of 62 years (1949-2010) with 154 cases altogether. Based on the above definition, I find that China used force in 74 out of the total of 154 international conflicts. Among these 74 cases of “use of force,” only 4 are wars with military casualties more than 1,000. I include in my data set all the MIDs that China involved, including all those that China originated or joined between 1949 and 2010.\textsuperscript{91}

\textsuperscript{89} For more information of the initial definitions of these terms, please see the codebook of the MIDs (v4.3) dataset at: rest of the text from the image.

\textsuperscript{90} According to the MIDs dataset, “Use of force” includes blockade, occupation of territory, seizure, attack, clash, declaration of war, use of CBR (chemical, biological, radiological) weapons; and “war” includes begin interstate war and join interstate war. The major difference between the two is that “use of force” does not necessarily cause fatalities, but “war” must cause at least 1,000 fatalities as defined by the COW project.

\textsuperscript{91} Some states do not originate MIDs, instead, they join such a MID when the dispute already started. For example, China joined the Korean War when it already started. The PRC was not the originator of this MID, but a participant. Normally, researchers differentiate states’ intensions in the two different groups of MIDs. Sometimes states also get involved passively in interstate disputes for reasons such as alliance treaty obligations. In my finding, China joined all the MIDs that were not originated by itself and also did not enter any of those disputes because of alliance treaty obligations. Therefore, I assume these non-originator MIDs/use of force still accurately demonstrate China’s conflict proneness and hence be included in my data set.
As we can see from a collapse of China’s annual MIDs involvement and use of force (Figure 6.1), the PRC demonstrates a clear pattern of conflict behavior in different times. The 1949-1970 period seems to demonstrate a most conflictual China with high frequency of conflict involvement and use of force. The 1974-1988 period shows a less conflict-prone China but with frequent use of force (almost every year). The 1993-2009 period sees a return to more military conflicts but the frequency of use of force consistently decreased. I also find that these time periods roughly overlap with different Chinese leaders’ terms—Mao Zedong (1949-1976), Deng Xiaoping (1977-1992), Jiang Zemin (1993-2002), and Hu Jintao (2003-2010). The first time period is similar to Mao’s term. The second one similar to Deng’s and the third one to Jiang’s and Hu’s combined.
As shown in Table 6.1, the PRC all together involved in 154 MIDs under these four leaders’ tenure. On average, Beijing engaged in 2.5 new military conflicts with other states per year.\textsuperscript{92} Looking at the data in different administrations, we have a more specific picture of China’s violent behavior. Mao was in power for almost three decades (1949-76) and China engaged in largest number of MIDs during his rule (79 MIDs altogether, 2.8 MIDs per year on average). China engaged in 24 MIDs under Deng’s 16-year rule (1977-92) and had lowest annual MIDs on average which is 1.5.\textsuperscript{93} In the decade that Jiang was in power (1993-2002), China had

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|c|c|}
\hline
& Mao & Deng & Jiang & Hu & Total \\
\hline
Years of Rule & 28 & 16 & 10 & 8 & 62 \\
\hline
MIDs & 79 & 24 & 31 & 20 & 154 \\
\hline
MIDs/Year & 2.8 & 1.5 & 3.1 & 2.5 & 2.5 \\
\hline
Use of Force & 50 & 15 & 7 & 2 & 74 \\
\hline
UOF\textsuperscript{*}/Year & 1.8 & 0.9 & 0.7 & 0.3 & 1.2 \\
\hline
UOF ratio\textsuperscript{†} & 63.3\% & 62.5\% & 22.6\% & 10\% & 48.1\% \\
\hline
\end{tabular}
\end{table}

Source: MIDs dataset (v4.3), COW project. Ratio and annual results computed by the author.  
*UOF=use of force; † UOF ratio= UOF/MIDs

\textsuperscript{92} Some MIDs can last more than one year. Here, I only count the new MIDs that China started or joined in each year.  
\textsuperscript{93} Deng came back to the center of power in 1977 after Mao’s death in 1976. However, on surface Hua Guofeng was the highest leader of the PRC at that moment, since he held both the premiership of the State Council and the chairmanship of the Party. Hua lost these two positions in 1980 and 1981 respectively (Evans 1995). For the convenience of analysis, I include these transition years into Deng’s ruling years as well.
31 militarized disputes and had the highest annual number of conflicts (3.1).\textsuperscript{94} The data only cover eight years of Hu’s term (2003-10), and China involved fewest MIDs during his term. On average, China only involved in 2.5 conflicts each year, the second lowest in all times (Table 6.1).

Out of the total 154 militarized conflicts, China used force in 74 of them. This means that almost in half of the MIDs (48.1\%) China finally resorted to force to solve those disputes. (Table 6.1). In Mao’s era, China used force most frequently. It used force 50 times in the total of 75 conflicts that China was involved, reaching a high of 63.3\% (Table 6.1). China under his rule used force twice more than that of all the other three leaders combined. This period no doubt marked the most conflictual time in the history of the PRC.

In Deng’s time, though China engaged in fewest MIDs annually, it also used force in more than half of its disputes with other countries (62.5\%), only slightly lower than Mao’s time (Table 6.1). This shows a different trend of China’s conflict behavior as compared to that of Mao’s. China may be reluctant to engage in international conflicts, but was not hesitant to use force to coerce other states when it found itself involved itself in a conflict.

During Jiang’s administration, China actually engaged in twice as many more MIDs per year as compared with Deng’s time, probably because when China started the economic reform and the Chinese engaged in more economic activities with other countries. However, the propensity for China to use force significantly decreased to less than one quarter of each MID on

\textsuperscript{94} Jiang became the General Secretary of the Party in 1989 after Deng and other party elders disposed Jiang’s predecessor Zhao Ziyang only a few days before the June 4\textsuperscript{th} Tiananmen Square Incident. Jiang solidified his power gradually and became the President of the PRC in 1993 (Kuhn 2005).
average (Table 6.1). This clearly demonstrates a changing tendency in the PRC’s conflict behavior during this time period. Beijing became more reluctant to use force in international conflicts as contrasted to Deng’s era. States can sometimes get involved in international conflicts either willingly or unwillingly, but they may also have the choice to escalate the conflict into a more violent one or to solve it peacefully.

During the eight years under Hu’s rule (2003-2010), China only used force twice and ratio of use of force is only one tenth (Table 6.1). These data again show the trend of China’s continued reluctance to get involved in conflicts and to use force.

![Figure 6.2: Annual MIDs & Use of Force (UOF) in Different Leaders’ Terms](image)

Data Source: MIDs data set (v4.3), COW project

Figure 6.2 further shows such a trend observed above by comparing MIDs and use of force on an average annual base under different administrations and may probably give us a
more accurate sense of the PRC’s conflict proneness in different times. China’s annual MID involvement under different administrations does not show a clear trend. The PRC was involved in similar annual MIDs under all leaders’ administrations (varies between 2.5 and 3.1) except Deng’s (1.5). However, the annual use of force does demonstrate a clear pattern: a steady decrease from Mao’s term to Hu’s term. States engaged in MIDs for various reasons. They could react retroactively or be involved passively. However, states normally need serious consideration on whether to use force against another state. Therefore, the number and/or frequency of use of force may more correctly measure the degree of violence of a state. The above observed pattern thus suggests a trend of China’s conflict behavior that though Beijing engaged in different numbers of disputes annually in different leaders’ terms, it became increasingly reluctant to use force to terminate disputes in its more recent administrations.

The MIDs data set further documents the information of whether any state engaged in a dispute tried to change the status quo and what type of changes it aimed to make. It codes such status quo changing states as “revisionist states” and categorizes revision issues as 1) territory, 2) policy, 3) regime/government and 4) other.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MIDs</td>
<td>79</td>
<td>24</td>
<td>31</td>
<td>20</td>
<td>154</td>
</tr>
<tr>
<td>Revisionist MIDS*</td>
<td>45 (57%)</td>
<td>17 (71%)</td>
<td>21 (68%)</td>
<td>5 (25%)</td>
<td>88 (57%)</td>
</tr>
<tr>
<td>Territory</td>
<td>21 (47%)</td>
<td>9 (53%)</td>
<td>12 (57%)</td>
<td>2 (40%)</td>
<td>44 (50%)</td>
</tr>
<tr>
<td>Policy</td>
<td>19 (42%)</td>
<td>7 (41%)</td>
<td>9 (43%)</td>
<td>3 (60%)</td>
<td>38 (43%)</td>
</tr>
</tbody>
</table>
Table 6.2 shows the number of such revisionist MIDs as well as the collapse of the revisionist MIDs in different issue areas under different administrations. A clear pattern exists that China increasingly engaged in fewer revisionist MIDs in recent administrations. The data also show that territory is a major issue in China’s conflicts with other states, because half of its revisionist MIDs are about territory (44 out of 88 revisionist MIDs, see Table 6.2). Especially during Deng’s and Jiang’s terms, the territory-related revisionist MIDs account for a very high percentage (53% and 57% respectively, Table 6.2). Historical observations are in accordance with such data.

China fought a war with India along their borders in the Himalayan Mountains in 1962 because of territorial disputes. China and Soviet Union clashed seriously in their border dispute in 1969. Beijing even prepared for a potential Soviet attack after this clash (Yang 2000). China also had a serious military conflict with South Vietnam in their disputes in the Xisha Islands (also known as Spratley Islands) in 1973.

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* There is another category in revisionist MIDs. The MIDs dataset labels it as “other.” Therefore, the total percentage added up here is sometimes not 100% because there are some MIDs categorized as “other.”
However, during Jiang’s term, the Chinese government solved all of its outstanding land disputes with its neighbors except those with India and Bhutan, and peacefully reached an agreement with Vietnam to demarcate the Gulf of Tonkin (Fravel 2008: 126). Probably because of Jiang’s legacy in this regard, China was less frequently involved in territorial-related MIDs during Hu’s term and, for the first time in PRC’s history, policy-related revisionist MIDs surpassed territory-related ones. This suggests that though territory is still a major factor of China’s disputes with other states; its importance in China’s overall disputes has declined in recent years.

In addition, the relatively high ratio of territory related MIDs involvement in both Jiang’s and Hu’s time was probably not a result of China’s conflict proneness. It could rather be a reflection of the fact that as a country expands its socioeconomic activities in the world and its economy booms, the probability of having disputes with other countries also rises. For example, China’s conflicts with neighboring countries in the East and South China Seas were often caused by foreign countries’ capture of Chinese fishing boats and fishermen. The fast-growing fishing industry at home has prompted Chinese fishing vessels to reach deep into the high seas for profits, and many of those seas are disputed areas between China and its neighbors such as Vietnam, Malaysia, and the Philippines (Zhang 2015). This obviously increased the risk of disputes and conflicts between China and its territorially disputed neighboring states. Therefore, such territory-related disputes sometimes could be interpreted as “economic disputes in disguise.” Table 6.3 lists all the 9 MIDs China involved in the post-1992 years related with a

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96 According to my research, except with Bhutan and India, there is only one land dispute China had with neighboring countries since 2005. That was with Tajikistan and was resolved peacefully in 2010.
foreign country capturing Chinese fishing vessels or fishermen. Out of this 9 MIDs, China was revisionist in 4 of them.

In the entire revisionist MIDs, China rarely aimed to change the government or regime of other states. In Mao’s time, China involved itself in such regime change revisionist MIDs five times. In the post-Mao time, Beijing never engaged in such MIDs (Table 6.2). This shows China’s indifference or inability to change other states’ regime type.

Table 6.3: China’s Fishing-Related MIDs (1992-2010)

<table>
<thead>
<tr>
<th>Dispute Number</th>
<th>Country</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>4030</td>
<td>Vietnam</td>
<td>1994</td>
</tr>
<tr>
<td>4019</td>
<td>North Korea</td>
<td>1995</td>
</tr>
<tr>
<td>4020</td>
<td>Taiwan</td>
<td>1995</td>
</tr>
<tr>
<td>4027</td>
<td>Philippines</td>
<td>1995</td>
</tr>
<tr>
<td>4028</td>
<td>Philippines</td>
<td>1996</td>
</tr>
<tr>
<td>4128</td>
<td>Philippines</td>
<td>1998</td>
</tr>
<tr>
<td>4448</td>
<td>Philippines</td>
<td>2002</td>
</tr>
<tr>
<td>4464</td>
<td>Vietnam</td>
<td>2003</td>
</tr>
<tr>
<td>4493</td>
<td>South Korea</td>
<td>2010</td>
</tr>
</tbody>
</table>

Source: COW project’s MIDs (v4.3) dataset
China’s Conflict Behavior in International Setting: A Horizontal Comparison

The historical comparison of China’s conflict behavior in different leaders’ administrations demonstrates a clear pattern of change that the PRC became more peaceful in recent years. However, can that change merely reflect a common trend for all major powers during this period? A horizontal comparison of China’s conflict behavior with those of other major powers can provide richer information of how China is positioned among peers. Since the Cold War was a major setting for the post-WWII international order, I make the comparison in two different time periods: Cold War and post-Cold War. Besides China, I include the United States, the Soviet Union/Russia, Great Britain, and France as the sample of great powers.

In the Cold War era between 1949 and 1991, China was much weaker in all aspects of capabilities as compared to the two superpowers (the United States and the Soviet Union). It was even much weaker than Britain and France before 1991 either in terms of economic size measured by nominal GDP or military power gauged by military spending. However, the PRC engaged significantly more MIDs than the other major powers excluding the United States and the Soviet Union (See Table 6.4).

Table 6.4: Comparative MIDs & Frequency of Great Powers’ Use of Force, 1949-1991

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>USA</th>
<th>USSR</th>
<th>Britain</th>
<th>France</th>
</tr>
</thead>
</table>

97 According to data from the World Bank, China’s nominal GDP in 1991 was only about one third of that of the United Kingdom or that of France. Data from the Stockholm International Peace Research Institute database show that in 1991 China’s military spending was roughly about one fourth of that of France or the United Kingdom.
Though the PRC did not involve in as many militarized disputes as the two superpowers, Beijing actually used force more frequently than the Soviet Union and the United States. When the PRC engaged in MIDs, it had the highest possibility to use force to solve disputes. In all of the 103 MIDs, China resorted to force in 65 of them, accounting about 63% of its total MIDs (Table 6.4).

<table>
<thead>
<tr>
<th>MIDs</th>
<th>103</th>
<th>153</th>
<th>128</th>
<th>69</th>
<th>35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Force</td>
<td>65</td>
<td>41</td>
<td>48</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>UOF ratio*</td>
<td>63%</td>
<td>27%</td>
<td>38%</td>
<td>29%</td>
<td>54%</td>
</tr>
<tr>
<td>Revisionist MIDs</td>
<td>62 (60%)†</td>
<td>40 (26%)</td>
<td>64 (50%)</td>
<td>7 (10%)</td>
<td>14 (40%)</td>
</tr>
<tr>
<td>Territory</td>
<td>30 (48%)‡</td>
<td>3 (8%)</td>
<td>14 (22%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Policy</td>
<td>26 (42%)</td>
<td>30 (75%)</td>
<td>46 (72%)</td>
<td>7 (100%)</td>
<td>12 (86%)</td>
</tr>
<tr>
<td>Regime/Government</td>
<td>5 (8%)</td>
<td>7 (18%)</td>
<td>2 (3%)</td>
<td>0 (0%)</td>
<td>2 (14%)</td>
</tr>
</tbody>
</table>

Source: MIDs data set (v4.3), COW project.
*UOF= use of force. UOF ratio= use of force/MIDs
† Ratio in parentheses = revisionist MIDs/total MIDs
‡ The percentage in the parentheses in the current and following three rows is the ratio of revisionist MIDs in specific areas (territory, policy, regime/government) over total revisionist MIDs.

Either the total number of “use of force” or the “ratio of use of force in total MIDs,” the PRC overwhelms all its peers during this time period. From this perspective, it might be safe to conclude that China was the most conflict-prone great power during the Cold War. As far as the different types of revisionist MIDs, China engaged significantly more in the territory revisionist MIDs as compared to other major powers. Britain and France even had zero territory-related
revisionist MIDs in this time period. The Soviet Union and the United States also involved in significantly fewer such MIDs. A basic fact is that China has most neighbors in the world (14 altogether) while the United States only has two. The PRC inherited these disputes from the Republic of China (ROC) government when it defeated the latter in the civil war. These disputes can easily become a source of military conflicts since China did not enjoy very friendly relations with most of them most of the time. The other two issue areas (policy, regime) of the revisionist MIDs seem not very important in China.

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>USA</th>
<th>Russia</th>
<th>Britain</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIDs</td>
<td>51</td>
<td>65</td>
<td>65</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Use of Force</td>
<td>9</td>
<td>30</td>
<td>19</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>UOF ratio*</td>
<td>18%</td>
<td>46%</td>
<td>29%</td>
<td>53%</td>
<td>38%</td>
</tr>
<tr>
<td>Revisionist MIDs</td>
<td>26 (51%)(^1)</td>
<td>28 (43%)</td>
<td>23 (35%)</td>
<td>8 (47%)</td>
<td>6 (38%)</td>
</tr>
<tr>
<td>Territory</td>
<td>14 (54%)(^2)</td>
<td>1 (4%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
<td>0 (0%)</td>
</tr>
<tr>
<td>Policy</td>
<td>12 (46%)</td>
<td>25 (89%)</td>
<td>21 (91%)</td>
<td>6 (75%)</td>
<td>4 (67%)</td>
</tr>
<tr>
<td>Regime Government</td>
<td>0 (0%)</td>
<td>2 (7%)</td>
<td>1 (4%)</td>
<td>2 (25%)</td>
<td>2 (33%)</td>
</tr>
</tbody>
</table>

Source: MIDs data set (v4.3), COW Project.

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\(^1\) China is bordered with Afghanistan, Bhutan, Burma, India, Kazakhstan, North Korea, Kyrgyzstan, Laos, Mongolia, Nepal, Pakistan, Russia, Tajikistan, Vietnam. CIA World Factbook: [https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html](https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html)
If we examine the data in the post-Cold War period of 1992-2010, however, we get a very different picture (Table 6.5). When engaged in militarized disputes, Beijing now rarely used force to solve them. The PRC becomes one of the least willing nations to use force among all major power in terms of percentage, only about 18% of the total MIDs. China only slightly fought more than France in terms of frequency, though it still engaged in third most MIDs following the two superpowers. This corresponds to our prior observation of China’s conflict behavior model of “high MIDs /low use of force” in Jiang’s and Hu’s terms (1993-2010). As for issue areas of revisionist MIDs, as can be seen in Table 6.5, China still was mainly concerned with territorial issues in the post-Cold War era. Its territory-related revisionist MIDs are still the majority, while all the other major powers either do not have any of such MIDs (Russia, Britain, France) or have very limited number of such MIDs (the United States only has 1). As for the

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99 That a state has a territorial MID does not necessarily mean that the state fights for its own homeland territory. States can join MIDs and fight for other states’ territorial disputes. For example, the United States involved in most of the territory MIDs because of defending its allies. It has only involved in such MIDs once when its Coast Guard used force snatching a Russian fishing boat in the Bering Strait in 1997.
regime-change related revisionist MIDs, China is the only great power among the five that did not involve in such MIDs.\textsuperscript{100}

This comparison between China and other major powers shows a consistent pattern of China’s conflict behavior as previously observed: the PRC was very conflict-prone in the Cold War era, but in the Post-Cold War time, it remained highly reluctant to use force to solve international disputes, though it still engaged in many of them. Territory was still a major focal point for China’s conflicts, and it remained mostly indifferent in changing regime types of other states.

The longitudinal and horizontal comparison made in the above two sections suggests some fundamental changes in the PRC’s pattern of conflict behavior in its six-decade long history. Though the quantity—the annual number of MIDs—does not change much from Mao’s to Hu’s terms, the “quality” of these MIDs has largely altered. From these changes, I have some informative discoveries concerning Beijing’s conflict behavior.

First, China changed from an active conflict-prone and violent major power to an increasingly peaceful one in MID involvement and use of force.

Second, the PRC is a highly revisionist state most of the time. China has a significantly higher ratio of revisionist MIDs over total MIDs than all other major powers in the Cold War era (Table 6.4). Its revisiionist MIDs ratio decreased in the post-Cold War time but is still the highest among all major powers (Table 6.5). That ratio finally dropped to 25% during Hu

\textsuperscript{100} The MIDs dataset at the COW project does not clearly explain the definition of these different types of MIDs. While “territory” ad “regime/government” types are more easily understandable, the “policy” type is vague in meaning and thus I abandon a deeper exploration of this type of MIDs.
Jintao’s term (Table 6.2). This could imply that China was not a satisfied great power until Hu Jintao’s time.

Third, territory is the major issue area for China’s revisionist impulse in its conflict with other states. Among all the revisionist MIDs, 50% were territorial disputes on average (Table 6.2).

If the above analyses of the patterns of China’s conflict behavior are valid, then the question emerges: what has contributed to drive such a steady and significant change in China’s foreign policy behavior from the Mao’s time to Hu’s era? What has mainly helped form such a highly dispute-prone, but least violent, pattern? In the author’s theory, the change in China’s domestic political economy should be largely responsible for such a change in the pattern of its conflict behavior. With the development of the capitalist-market economy at home, Beijing increasingly enjoys benefits in a peaceful and stable international environment and a robust international marketplace. The inflow of international investment and export of Chinese goods greatly strengthened China’s economy by providing more job opportunities, increasing government tax income, and improving the population’s living standard. All these benefits, as discussed in Chapter 3, can steadily improve the legitimacy of the CCP, thus creating a positive feedback loop—“CCP legitimacy-economic development-more legitimacy”. The following section will do a large-N statistical test to find out whether the contractualist economic development in China is a major cause of bringing meaningful transformations in its conflict behavior.
The Statistical Test of Contract Intensity and China’s Use of Force

Though the COW project’s MID data set is widely used by students in International Relations and security studies; Johnston (1998) noted that researchers studying China’s security or conflict behavior rarely take advantage of its abundance of data to test their hypotheses. As far as the author is aware, so far only a few research efforts have analyzed China’s conflict behavior drawing data from the MID dataset (Johnston 1998; Li 2013, 2014; Xiang et al. 2015). These studies offered some new and interesting arguments based on the rich information recorded in the dataset. For example, by comparing China’s conflict behavior with other major powers, Johnston (1998) discovered, quite contrary to Realist understanding, that China’s increase in material capabilities are actually associated with a decrease in the frequency of its militarized dispute involvements.

Li (2013, 2014) discovered that China had a very fluctuating trend of MID involvement and use of force since 1949. Though China was a most conflictual great power in Mao’s time, its likelihood of using force in MID declined significantly after the mid-1980s. He argued that this outcome is the result of the change of Chinese leaders’ subjective views about war and peace, and little to do with material factors, such as China’s capabilities and trade interdependence. He thus rejected the Realist argument that the increase of China’s material capabilities will cause more conflicts with other states in the future.

Xiang et al. (2015) discovered that Realist variables, such as economic power, military power, and alliance strategies, have no significant effect on China’s conflict behavior between 1978 and 2010. They also find that interdependency and institutionalist variables, such as bilateral trade and joint international organization memberships, did not seem to explain the
onset of military conflicts between China and other states. They claim that China’s rise was, and will be largely, peaceful.

According to economic norms theory, the root cause of the contractualist peace lies in the incentive of these contract-intensive nations to promote market growth internationally (Mousseau 2013). As discussed in Chapter 2, the reasons why contractualist nations are comparatively more peaceful lie in two mechanisms: first, leaders in contractualist nations are accounted by voters to promote market growth abroad; therefore, any action, which has the potential to undermine the prosperity of foreign markets, is against the basic interests of contractualist countries. Second, expansionary foreign policies and bullying of other countries may not only harm international market growth, but also violate the equal law norms of contractualist nations (Mousseau 2009, 2019).

As discussed in earlier chapters, accountability in China works in a different way than in those contractualist democracies. Though the CCP has not changed its label as a Marxist revolutionary party, the party-state actually has experienced significant transformations in the last four decades and its rule has become a so-called “responsive authoritarianism” (Heurlin 2016). Government institutions change their agendas based on the information they receive from the population. Foreign policy making is increasingly connected with domestic interests when China’s economy has incrementally infused into the world economy as a whole. The CCP promotes market growth not because of the accountability reason as in democracies, but because of the legitimacy issue. Economic development can enhance its legitimacy and increased legitimacy encourages it to further promote market growth. This is the key to understanding the Chinese government’s deep interests in maintaining and promoting a robust marketplace both
domestically and abroad. However, will this incentive be strong enough to pacify China’s foreign behavior?

Therefore, this chapter is a test of whether the development of market economy in China as well as its increase of contract intensity can largely tame this rising great power.

This section will use statistical tools to test the major hypotheses of this dissertation that with China’s market reform and economic development, its contract intensity will have an increasingly pacifying effect on its conflict behavior. In other words, when China’s economy is becoming more contract intensive, it will become more peaceful in dealing with other nations in the international system.

Research Design

The dyadic level of analysis is a widely adopted unit of observation in quantitative International Relations scholarship. So far in my prior analyses of China’s MIDs, I have treated all MIDs as the same. However, states in the international system are very different from the perspective of a single state. Some are major powers; others are weaker states. A few are allies while a few others are enemies. Some are neighboring states enjoying close trade relations; others are faraway and might have very little contact with China. Therefore, the reasons for the origination of a MID are often specific to conditions at the dyadic level rather than the national level. This study thus adopts such a dyadic analysis. It uses all China-related country dyads that are documented in the COW project’s dyadic MID dataset (V3.1) (Maoz et al. 2019) in the time-period of 1949-2010.
Accordingly, my unit of analysis is the dyadic country-year, centered on relations with China. For example, there is one dyad for China and Russia; another for China and India, and so on. Aggregated annually, there are multiple years for each dyad. For instance, China and the United States have 62 dyad years from 1949 to 2010. Since it is not always clear which side started a dispute in the MID dataset, the data do not allow for an investigation of the question of which side “started” a militarized conflict. Rather the data analyzed will include information of whether China-United States involved in a MID in a certain year and whether China used force in the MID. It will also include information of other factors that I believe might have an effect on the peace or war between the two states in a given year, such as bilateral trade, alliance status, bordering each other or not, and so on. Over this period (1949-2010), there are 9,117 interstate dyads of sovereign nations identified by COW where China is one of the states in the dyad (Correlates of War Project 2017).

**Dependent Variables**

In the prior two sections, I mainly compared China’s conflict behavior vertically (change in different time periods) and horizontally (difference as compared to other major powers) using data documented in the MIDs (V4.3) data set. The number of MIDs informs us how often China was involved in militarized disputes with other states. The number of “use of force” events documents how often China dealt with these interstate disputes violently. The change or differences are the main phenomena that I am most interested in and aim to explain. Therefore, MID and Use of Force are my two dependent variables. Both are dummy variables. Since my analyses will be on dyadic level, MID is coded 1 if China and the other state in a dyad involve in
a MID in a certain year, otherwise 0. While in the first part of this chapter I included only the new MIDs in calculating China’s annual MID involvement, in this section I do count those ongoing MIDs in the dyadic setting. For example, if China and Japan started a MID in 1999, the variable MID is coded 1 for the China-Japan dyad in year 1999. If that dispute still existed between the two states in 2000, MID is still coded 1 for the dyad in year 2000. Use of force is coded 1 if China used force against another state in a dyad in a given year, otherwise 0. As explained earlier, use of force is a higher hostility level of military dispute, so whenever use of force is coded 1, MID is also coded 1. In other words, cases of use of force are a subgroup of cases of MIDs.

*Main Independent Variables*

My main independent variable is the contract intensity of China’s national economy. The data of this variable are cited from the variable *Contract-intensive Economy (CIE)* in the Contract Intensity of National Economies (CINE) data set (version Mar 2019) (Mousseau 2019). Data for this variable are available from 1960 to 2010. According to CINE (version Mar 2019), the value of the variable is retrieved by calculating the natural log of a state’s life insurance premium per capita. As discussed in chapter 3, the life insurance data about China were not available until 1986, since China was not a market economy and the life insurance market almost equaled zero before Deng’s economic reform. In the original CINE dataset, the data for China 1960-1985, as

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101 A MID can last more than one year. The variable MID is coded 1 whenever the two states in a certain dyad are engaged in a dispute in a given year. As discussed earlier, I include all “joiner” MIDs, meaning that even China or the other state join a pre-existing dispute, the variable is still coded 1 as long as China and the other state in the dyad are on opposite sides of the dispute.
for all nations before they enter the data, are extrapolated from additional data on the contract intensity of national economies. This is a necessary step in the construction of the CINE data, because missing data are not missing at random (Mousseau 2019:169). Caution is always warranted, however, when drawing out one case from large-N data, as large-N data are constructed with the assumption that errors in the data are distributed randomly. Here my aim is to examine one country, China. Therefore, to stay on safer grounds I use only the CINE original measure *Life Insurance* for which there are available data between 1986 to 2010.\textsuperscript{102} However, if I only use the data for all variables between 1986-2010, I will lose the majority of my observations.

As a second-best choice, I therefore use predicted values of CIE after it is regressed against private investment as a proxy for the value of my main independent variable CIE. The logic to use this proxy is quite simple. Since both life insurance and private investment are non-self-enforcing contracts, they need impartial enforcement from the state. Therefore, both are good measures of a states’ contract intensity. The data for private investment in China come from the popular Penn World Tables, version 7.1 (Heston, Summers and Aten 2012).\textsuperscript{103}

\begin{flushright}
\textsuperscript{102} For more information on this point, please see the codebook of the CINE (Mar 2019) dataset at: https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/8RPC9E.
\end{flushright}

\begin{flushright}
\textsuperscript{103} The value of *private investment* is the product of 3 variables in the Penn World Table, Version 7.1 data set: $k_i$ (percentage of private investment against GDP per capita), $RGDPL$ (real GDP per capita at constant (2005) national prices converted to international dollars using purchasing power parity (PPP) rates), and China’s population. I take the natural log of the values because of the big variance in the value of the product across years. The data cover the time period of 1952-2010; the data for 1949-1951 is imputed by using the fitted values after *private investment* is regressed against *year*.
\end{flushright}
predicted values dating back to the year 1949, now the main independent variable CIE has continuous values covering the whole time period of my data sample 1949-2010 (Figure 6.3).

![Comparison of CIE & Fitted Values](image.png)

Figure 6.3: Comparison of Main I.V. CIE and Its Fitted Values

Data source: CINE (Mar2019), Penn World Tables, V7.1

As a robustness check, I also introduce another two independent variables to gauge China’s contract intensity. The first is *Investment*, which is the same variable for private investment that I used above to gauge the values of CIE. I also introduce a dummy variable *Axial Economy*. As discussed earlier, when a state enters the period of an axial state, its market grows significantly but is not inclusive enough as a contractualist one and my still has some informal contract flows (Mousseau 2019). According to the CINE (version Mar-2019) data set, China entered the period of an axial state in 1997. Therefore, Axial Economy is coded 1 when Year is equal or larger than 1997, and 0 when Year is smaller than 1997.
Thus, my main hypothesis is:

_H1: As China’s contract intensity increases, its frequency of conflict involvement and propensity to use force in conflicts decrease._

**Competing Independent Variables and Control Variables**

As discussed in Chapter 1, mainstream theories of international relations have offered different predictions for the rise of China based on their observations on and theoretical explanations of China’s conflict behavior. In order to test these competing theories, I also introduce several such “competing” independent variables into my statistical models, to see the robustness of my main explanatory variable.

I introduce an independent variable of *Relative Power* to test the Realist theory. As some Realists such as Mearsheimer (2006) have argued, when China’s capabilities grow, it will possibly become more aggressive and the rise of China stoke conflict with other major powers, fearing this rise. Others such as Allison (2017) believe the increasing capabilities of the rising power is the major cause of the inevitability of the “Thucydides’s trap”. Therefore, I expect this variable to be positively related with my dependent variables. As China’s military power increases relative to that of another state, its willingness to use force in conflicts is expected to increase as well.

Both Li (2013, 2014) and Xiang et al. (2015) used GDP, military expenditure, and the COW project’s CINC index to gauge national power. They also did their analyses on the dyadic level. Their results of these material variables in predicting China’s conflict behavior are mixed. In Li’s (2013, 2014) research, capabilities are negatively related to China’s use of force, while in
Xiang et al.’s, capabilities rarely have a significant effect on China’s use of force. As discussed in Chapter 1, because the CINC index has largely overestimated China’s national power, it may seriously bias my models if used. I therefore adopt the military expenditure ratio to gauge Relative Power, since Realists emphasize hard power and relative power in observing states’ relations. It is calculated as China’s military expenditure divided by military expenditure of another state in a dyad in a given year. The data of states’ military expenditures come from the Correlates of War project’s National Material Capabilities (v5.0) data set. Following past measures of relative power, the value of the variable takes a natural log to smooth out large variance in the data.

Power transition theorists believe that territorial disputes are the major source of conflicts between a rising challenger and the existing dominant power (Tammen and Kugler 2006). Territorial disputes are also believed to be the most destabilizing of interstate disputes (Vasquez 1993; Vasquez 2009; Vasquez and Henehan 2010). If this is the case, the rising great power will be more dissatisfied with the current system and may be more likely to use force in such disputes. Therefore, I introduce another competing explanatory variable—Territorial Claim. It is a dummy and is coded 1 if China has a territorial claim on at least one piece of territory, either on land or sea, which is also claimed by another state in a dyad in a given year; otherwise 0. The data for this variable come from the ICOW Territorial Claims Data Set (Frederick, Hensel and Macaulay 2017). The ICOW data cover only the years from 1816 to 2001: I extended the data from 2002 to 2010 from my own research (see Appendix 1 for a list of territorial claims China made between 2002 and 2010). Li (2014) found territorial claims positively related with China’s use of force. I expect this variable to be positively related to my dependent variables.
I also introduce two explanatory variables *Bilateral Trade* and *Joint IGOs* to test the arguments made by interdependency theorists (Oneal and Ray 1997; Oneal and Russett 1997; Gartzke and Li 2003) and institutionalist theorists (Keohane 1984; Finnemore 1996). These two neoliberal theories argue that trade interdependence and joint participation in international organizations could dampen the possibility of conflicts between states. The value of the variable Bilateral Trade is calculated using the following formula introduced by Barbieri (1996), which is commonly used by many other researchers in the field:

\[
\sqrt{\frac{\text{dyadic trade}}{\text{Total trade, China}}} \times \frac{\text{dyadic trade}}{\text{Total trade, the other state}}
\]

The data of this variable come from the COW project’s Bilateral Trade (v4.0) dataset (Barbieri, Keshk, and Pollins 2009). The data of Joint IGOs are cited from the COW project’s Intergovernmental Organizations (v3) (Pevehouse, Nordstrom and Warnke 2004). The value of the variable is calculated as the total number of international organizations that both China and another state are a member of in a given year. I expect to see a negative relationship between these two variables and the dependent variables. In other words, China is expected to involve in fewer conflicts and use force less against states with more bilateral trade and more shared international organizations with China.

Diversionary theory posits that leaders will use foreign conflicts to distract the population from their own “domestic strife” (Sobek 2007). Therefore, higher domestic unrest may cause
states to use force more often in foreign behavior. On the other hand, Johnston (1998: 18-19) discovered that Chinese leaders might be “preoccupied” by domestic unrest and China’s possibility of use of force dropped in recent years when China has had more domestic insecurity. Li (2014) re-affirms Johnston’s (1998) findings. I, therefore, create a new competing variable, *Domestic Unrest*, to test this theoretical argument. The value of the variable is the same as the *CIVTOT* variable in the Major Episodes of Political Violence data set hosted at the Center for Systemic Peace (Marshall, Gurr and Jaggers 2012). It is a combined magnitude score of episodes in civil violence and civil war.\(^\text{104}\) The data cover the time period of 1946-2012. I expect to see a negative relationship between this variable and my dependent variables.

Allied states normally engage in fewer conflicts and use force less against each other. I, therefore, include in my models a dummy variable *Alliance*, which is a commonly used variable in conflict and security studies. The data of the variable are from the COW project’s Formal Alliances dataset (v4.1) (Gibler 2009). According to the data set, the variable is coded 1 if China has a mutual defense treaty, a neutrality pact, or an entente with the other state within a dyad in a certain year. Otherwise, it is coded 0.

In order to control the effect exerted by geographical factors, I introduce two control variables into my models: *Contiguity* and *Distance*. For states, the propensity of conflict involvement and use of force can increase towards neighboring countries sharing a common border, especially when these states have limited delivery capabilities. Therefore, I introduce a dummy control variable Contiguity. It is coded 1 if a country shares a border with China or is

\(^{104}\) Major Episodes of Political Violence, 1946-2018. For more information, visit the website:

https://www.systemicpeace.org/inscrdata.html
within 150 miles across open sea; 0 otherwise. I obtain the data of this variable from the COW project’s Direct Contiguity (v3.2) (Stinnett et al. 2002). Naturally, because of China’s limited power projection, the possibility of China’s use of force is expected to decrease, the farther the other state is from China. The variable Distance is measured by geographical distance between the two capitals if the two countries in a certain dyad are not contiguous. Distance is coded 0 if two states share a common border. The information of this variable is drawn from the Expected Utility Generation and Data Management Program (Bennett and Stam 2000).

Regression Models, Endogeneity and Collinearity

Because both dependent variables are binary, I use logistic regression to estimate the effects of my independent variables on China’s MID and Use of Force. Since my data are structured as time-series-cross-sectional, temporal dependence in the dependent variable is a major concern. Following suggested procedures for such data with binary dependent variables, I create a variable called Peace Years, which counts the length of peace (i.e. no MID or Use of Force) preceding the current observation. Together with Peace Years, I use three natural cubic splines to control for time dependence as suggested by Beck, Katz and Tucker (1998).

Since the major task of my study is to examine a theoretical prediction—in the logic of confirmation rather than the logic of discovery—it is necessary to avoid controls for variables that might be explained by the theorized variable. Including such control variables could cause the issue of endogeneity, which King, Keohane and Verba (1994:173) discussed in detail and suggested avoiding. According to the logic of economic norms theory, the increase in a state’s contract intensity can cause series of changes in the state’s domestic and international politics,
which have been discussed in my prior chapters. For example, the theory predicts increased contract intensity to cause growth of foreign trade. Therefore, CIE will weaken with controls such as trade, but such a weakening after control for trade cannot be interpreted as a challenge to the theory. Rather, it is a problem of endogeneity which will cause my statistical models to be biased. The variables that could cause such problems include:

*Domestic Unrest*

Contractualist states normally have a strong government and rule of law in order to enforce contracts impartially. Domestic unrest therefore is significantly low in contractualist states (Mousseau 2003).¹⁰⁵

*Bilateral Trade*

Contractualist states promote trade and favor international trade. They tend to have robust domestic markets and encourage a healthy international market governed by rule of law. Therefore, they tend to have more bilateral trade among them.

*Joint IGOs*

Contractualist states favor international cooperation and the rule of law. IGOs are major vehicle of rule of law in international relations. Contractualist states are expected to participate in more international organizations.

*Territory Claim*

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¹⁰⁵ There is a possibility that those axial states may experience more civil unrest when their economy start to transit to a contractualist economy, because there are always winners and losers of any economic transformation. For more on this topic, refer to Polanyi (1957)’s discussion on “double movement.”
Contractualist states are less likely than others to militarize territorial disputes because their self-identities are in law rather than culture. They are thus expected to have fewer territorial disputes and, when they do, solve them peaceably or simply let them linger.

**Alliance**

Contractualist states are in natural alliance with similar preferences in international relations: the principle of self-determination for all states (so states, like individuals in a rule-based market, have freedom to make contracts), order (so states have stable environment to make contracts), equal status in legal terms (so states can make contracts on equal footing), and rule of law (states’ interests are protected by law). Therefore, contractualist states are expected to have more allies than status or axial states, which normally do not share such values and preferences.

Table 6.6 corroborates that some of these endogenous terms correlate with CIE. The Pearson’s correlation check indicates that some endogenous variables have high correlation scores with my main independent variable.\(^{106}\) Joint IGOs has the strongest correlation with CIE, with a high Pearson’s score of 0.84. Domestic Unrest has a strong negative correlation with CIE in China, with a Pearson’s score \((r)\) of -0.65. These correlations are consistent with my expectation that as China’s economy has become more contract intensive, its leaders have developed interests in joining IGOs, and the state has had fewer problems of domestic unrest. Bilateral trade has a weak correlation with CIE \((r=0.11)\). Economic norms theory expects China’s trade increase with growth of its contract intensity. However, because of the method I

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\(^{106}\) Though there is not a specific rule commonly agreed by statisticians and researchers to determine that a certain strength of a correlation can be regarded as a strong correlation, researchers in political science normally agree that a Pearson’s correlation score \((r)\) larger than 0.5 indicates a strong correlation.
selected to measure bilateral trade, which is the square root of the product between the rates of bilateral trade volume over each state’s total trade volume, the variable actually measures China’s overall trade structure rather than trade volume. For example, if we assume China’s total trade increases ten times within five years and its bilateral trade with each country also increases five times in the same time, then the two values remain the same given the assumption that the rate of bilateral trade over total trade in all other states also stays the same. Territorial claim is weakly correlated with CIE ($r=-0.04$).

Economic norms theory predicts CIEs to be less likely to use of force in territorial claims, not fewer such claims, so the weak correlation is expected. Alliance also has a weak correlation with CIE ($r=0.02$). This is also expected, since CIE predicts natural alliance, not formal alliance, and real friends do not have to sign treaties saying they are friends. All these correlations are statistically significant.

Contiguity and distance have a high correlation (-0.61), which is easily understandable because faraway states cannot have contiguity with China except for some colonial states such as Britain (Hong Kong, 1949-1997), France (French Indochina, 1949-1954) and Portugal (Macau, 1949-1999). However, these two variables are not of my research interest and this high correlation can be safely neglected.

All the other competing independent variables and control variables are not seriously correlated with my main independent variables (Table 6.6). Relative Power’s correlation score is only 0.06 to CIE. And the correlation scores for Contiguity and Distance with CIE are merely -0.06 and -0.01 respectively. Since my analyses are in the logic of confirmation, collinearity
among non-endogenous variables is not a problem, since it will not have any adverse effects on CIE.
Table 6.6: Pearson’s Bivariate Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>CIE</th>
<th>Axial Economy</th>
<th>Relative Power</th>
<th>Territorial Claim</th>
<th>Bilateral Trade</th>
<th>Joint IGO</th>
<th>Domestic Unrest</th>
<th>Alliance</th>
<th>Contiguity</th>
<th>Distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIE²</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Axial Economy</td>
<td>0.74***</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative Power</td>
<td>-0.06**</td>
<td>0.03*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Territorial Claim</td>
<td>-0.04**</td>
<td>-0.04*</td>
<td>-0.25**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bilateral Trade</td>
<td>0.11**</td>
<td>0.15**</td>
<td>-0.36**</td>
<td>0.24**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint IGO</td>
<td>0.84**</td>
<td>0.42**</td>
<td>-0.11**</td>
<td>-0.06**</td>
<td>0.10**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Unrest</td>
<td>-0.63**</td>
<td>-0.56**</td>
<td>0.10**</td>
<td>0.02</td>
<td>-0.09**</td>
<td>-0.33**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alliance</td>
<td>0.02*</td>
<td>0.07**</td>
<td>-0.10**</td>
<td>0.14**</td>
<td>0.10**</td>
<td>-0.04**</td>
<td>-0.02</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contiguity</td>
<td>-0.06**</td>
<td>-0.03**</td>
<td>-0.15**</td>
<td>0.60**</td>
<td>0.13**</td>
<td>-0.11**</td>
<td>0.03**</td>
<td>0.37**</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Distance</td>
<td>-0.01</td>
<td>-0.02</td>
<td>0.29**</td>
<td>-0.43**</td>
<td>-0.30**</td>
<td>0.03*</td>
<td>0.01</td>
<td>-0.24**</td>
<td>-0.61**</td>
<td>1.00</td>
</tr>
</tbody>
</table>

1. N=8,274.
2. Since CIE values are predicted values after regressed by Investment, the latter has the same correlation scores with all the other variables as CIE does, hence omitted here.
3. *p<0.05, **p<0.01
Empirical Results

I conduct several different models to test the significance of my independent variables of interest. First, I report the basic models with controls only for those factors that are clearly not endogenous to the contract intensity of China’s national economy: Contiguity, Distance, and the controls for temporal dependence. These models test my main hypothesis in the logic of confirmation—guided by theory—that the increase of contract intensity in China has a significant effect on China’s conflict behavior.

Second, since all the competing independent variables are endogenous except Relative Power, I include Relative Power into the main models. These models are supposed to test that when the Realist competing variable is included, whether my main independent variables still have a significant effect on China’s conflict behavior.

Third, it is possible that other theories can predict any of these endogenous variables to cause CIE. I therefore report additional tests outside the logic of confirmation (the testing of my theory for China’s behavior) and in the logic of discovery. That is, I include as my final tests all these endogenous variables, in order to discover if any of them might plausibly account for any corroborated role for CIE on China’s foreign policy behavior. All results are computed by Stata version 14. To further reduce endogeneity, all independent variables are lagged for one year behind the dependent variables.
Basic Models

The results yielded by the basic models on MID and Use of Force mostly fit my expectations. Both CIE and Investment are highly significant on the \( p < 0.01 \) level (Table 6.7, models 1, 2, 4, 5). Their directions are also negative as expected. The results are in accordance with my earlier observations that when China’s contract intensity increases, its frequency of MID involvement and propensity to use force decrease.

The binary independent variable Axial Economy is only significant when the dependent variable is Use of Force \( (p = 0.057, \text{ since it is a one-tailed test, } p = 0.057/2 = 0.029, \text{ smaller than the } 0.05 \text{ threshold}) \) (Table 6.7, model 6).

This result partially supports my prediction that when China enters the axial stage, it may become more peaceful (fewer MIDs, less use of force). From prior qualitative observations of China’s conflict behavior, we can roughly see that China did not involve significantly lower MIDs in the post-1997 years but did use force less in its disputes with other states (Table 6.1). The findings here are actually in accordance with the observations in the MIDs data.

Probably because of limited data available (there are only 14 years of China being an axial state (1997-2010)), the effect of Axial Economy on the dependent variables was not significant. Given that two of the three measures for contract intensive economy, the results in Table 6.7 largely confirm my theoretical arguments made so far in this dissertation, that the increase of contract intensity in China has largely tamed a once conflictual and violent great power and turned the PRC into a relatively peaceful actor during its quick rise to a global power.
Table 6.7: Dyadic Assessment of China’s Conflict Behavior, Basic Results, 1949-2010

<table>
<thead>
<tr>
<th></th>
<th>MID</th>
<th>Use of Force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>CIE</td>
<td>-0.17*(^1) (0.07)(^2)</td>
<td>-</td>
</tr>
<tr>
<td>Investment</td>
<td>-</td>
<td>-0.14* (0.06)</td>
</tr>
<tr>
<td>Axial Economy</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contiguity</td>
<td>0.43* (0.20)</td>
<td>0.43* (0.20)</td>
</tr>
<tr>
<td>Distance</td>
<td>-0.66** (0.13)</td>
<td>-0.66** (0.13)</td>
</tr>
<tr>
<td>Constant(^3)</td>
<td>5.20** (1.16)</td>
<td>8.11** (1.97)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Log likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,103</td>
<td>-643.69</td>
</tr>
<tr>
<td></td>
<td>8,103</td>
<td>-643.69</td>
</tr>
<tr>
<td></td>
<td>8,103</td>
<td>-646.55</td>
</tr>
<tr>
<td></td>
<td>8,103</td>
<td>-403.01</td>
</tr>
<tr>
<td></td>
<td>8,103</td>
<td>-403.01</td>
</tr>
<tr>
<td></td>
<td>8,103</td>
<td>-418.36</td>
</tr>
</tbody>
</table>

1. *p<=0.05, **p<=0.01.
2. Standard errors are in parentheses.
3. Results for time dependence controls and their cubic splines are not reported here in order to save space.
**Main Models**

The main models serve the objectives to test if my main independent variables will still have an effect on the dependent variables even when the effect of the competing independent variables is included. Since all the other competing independent variables are potentially endogenous, they will be tested in the following robustness check models. At this step, I only introduce the competing independent variable—Relative Power into my main models. All the same variables that were used in the basic models will remain in the main models.

The results of the main models turn out to be similar to those of the basic models. Both CIE and Investment are highly significant at the $p<0.01$ level and the direction of the estimates is as expected (Table 6.8, models 1, 2, 4, 5).

Especially in models 4 and 5, the results show that one standard deviation increase of CIE or Investment is associated with 80% or 67% reduction of risk of Use of Force respectively, making CIE and Investment the strongest predictors of China’s use of force except in Model 5. This again demonstrates the explanatory power of contract intensity in predicting China’s conflict behavior, even when the effect of China’s relative capabilities as compared to other states are effectively held.

Same as the result in the basic model 3 (Table 6.7), the third variable measuring China’s contract intensity Axial Economy is still statistically insignificant in predicting China’s MIDs (Table 6.8, model 3). This shows that when China’s relative capabilities are considered, the fact that China entering the axial period does not have any effect in lowering the possibility of its involvement in international conflicts.
Table 6.8: Dyadic Assessment of China’s Conflict Behavior, Main Results, 1949-2010

<table>
<thead>
<tr>
<th></th>
<th>MID</th>
<th>Use of Force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>CIE</td>
<td>-0.35**1</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(0.08)²</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>-</td>
<td>-0.28**</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.07)</td>
</tr>
<tr>
<td>Axial Economy</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relative Power</td>
<td>-0.26**</td>
<td>-0.26**</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
<td>(0.04)</td>
</tr>
<tr>
<td>Contiguity</td>
<td>0.02</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.21)</td>
<td>(0.21)</td>
</tr>
<tr>
<td>Distance</td>
<td>-0.83**</td>
<td>-0.83**</td>
</tr>
<tr>
<td></td>
<td>(0.15)</td>
<td>(0.15)</td>
</tr>
<tr>
<td>Constant³</td>
<td>7.76**</td>
<td>13.67**</td>
</tr>
<tr>
<td></td>
<td>(1.28)</td>
<td>(2.26)</td>
</tr>
</tbody>
</table>

| N                    | 7,309     | 7,309     | 7,309     | 7,309     | 7,309     | 5,595     |
| Log likelihood       | -539.79   | -539.79   | -547.93   | -333.71   | -333.71   | -351.43   |

1. *p <= 0.05, **p <= 0.01.
2. Standard errors are in parentheses.
3. Results for time dependence controls and their cubic splines are not reported here in order to save space.
In model 6 of Table 6.8, the estimator of Axial Economy is omitted by Stata, because when this independent variable equals 1, it perfectly predicts the failure of the dependent variable (i.e. Use of force=0) and Stata automatically dropped it in its calculation. This can be simply understood as: there is no case of a use of force since China became axial, holding all other independent variables constant. Looking into my dataset, China used force only twice in the total of 2,279 observations in the axial years.\(^{107}\) Statistically speaking, when Axial Economy equals one, the two positive observations where Use of Force equals one can be safely neglected given the fact of the large non-positive observations of Use of Force (i.e. Use of force=0). This result strongly supports the argument that when China enters the axial stage, it almost uses no force in solving its militarized disputes with other states.

The competing independent variable Relative Power in all the six models is statistically significant (Table 6.8). However, as contrasted to my expectation, it has a negative effect on China’s MID involvement and use of force. In other words, when China’s hard power increases relative to other states in recent decades, it does not become a more aggressive actor, as some Realists have predicted (Mearsheimer 2001, 2004, 2006). Instead, it involves in fewer MID and uses force less frequently than expected. This finding is in accordance with Li’s (2013, 2014) studies. Johnston (1998) also found such a negative relationship between power increase and China’s MID in his earlier research. His explanation is that China probably becomes more satisfied with the international system when its power increases. However, he does not provide a reason for such satisfaction. It could also be possible that when China becomes more powerful,

\(^{107}\) China used force against Bhutan in 2005 and against Vietnam in 2010 respectively. Both countries are contiguous with China. These two are the only cases of use of force in China’s axial period: 1997 to 2010.
more non-violent tools, such as economic coercion and persuasion, are available to China than use of force.

My theory provides further explanation on why China becomes more satisfied with the international system when its capabilities increase. Though military capabilities gauged by defense spending are not necessarily caused by economic development, the phenomenal growth of China’s economy in the last few decades provides favorable material basis for its military spending. As discussed in chapter 3, without Deng Xiaoping’s economic reform and the introduction of market economy, China’s economic miracle could not have happened. Therefore, China’s military spending is highly correlated with China’s economic development. Figure 6.4 captures such a trend in the relationship between China’s GDP and its military spending.

At the same time, the capitalist-market development in China not only created economic development, but also increased Beijing’s benefits in the world market when it gradually infused its economy with the latter. The current international order was established and maintained by the contractualist hegemony (the United States as the leader and all other contractualist states as members of it). China has become and will continue to become satisfied with this international order because it has been benefiting in the last four decades and will continue to benefit from it in the foreseeable future. This is the reason that when China’s military capabilities grow, Beijing’s satisfaction with the current world order also increases.
When China’s capitalist-market economy continues to develop, its benefits and welfare will get more and more embedded in this rule-based international order, and Beijing will most likely become a natural defender of this order and will not possibly challenge it. A satisfied China cannot be a revisionist great power. Even when the power transition happens one day between United States and China, it will most probably be peaceful. The UK-US power transition model in the late 1800s and the early 1900s, rather than the UK-Germany model before WWI, may be a better example for future Sino-US relationship. More discussions will be made on this point in the conclusion chapter.
Robustness Check Models

I further test those endogenous competing independent variables of their significance in predicting China’s MID and Use of Force, because these are common explanatory variables that have been used by prior researchers in statistical empirical study on China’s conflict behavior (Johnston 1998; Li 2013, 2014; Xiang et al. 2015). As discussed earlier, Relative Power is not predicted by CIE, therefore, does not have the endogeneity issue and was included in the main models.

First, I include all the endogenous variables and control variables in a single model without my major independent variable CIE (the control group). The prior correlation check shows that these variables do not have serious problems of collinearity among themselves without CIE (Table 6.6). This will allow me to see any significant relationship between these endogenous independent variables and my dependent variables.

Then, I introduce CIE into the models (the treated group). I expect to see some change in significance or estimate comparing the different results of the control group and the treated group. The statistical results of the logistic regression models of the robustness check largely meet my expectations. All competing variables except Relative Power and Joint IGOs are not statistically significant in estimating China’s MIDs and Use of Force in the control groups (Table 6.9, models 1 and 3).
Table 6.9: Dyadic Assessment of China’s Conflict Behavior, Robustness Check, 1949-2010

<table>
<thead>
<tr>
<th></th>
<th>MID Use of Force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
</tr>
<tr>
<td>CIE</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(0.23)(^2)</td>
</tr>
<tr>
<td>Relative Power</td>
<td>-0.20**</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
</tr>
<tr>
<td>Territorial Claim</td>
<td>0.24</td>
</tr>
<tr>
<td></td>
<td>(0.25)</td>
</tr>
<tr>
<td>Bilateral Trade</td>
<td>0.20</td>
</tr>
<tr>
<td></td>
<td>(3.56)</td>
</tr>
<tr>
<td>Joint IGOs</td>
<td>-0.16*</td>
</tr>
<tr>
<td></td>
<td>(0.08)</td>
</tr>
<tr>
<td>Domestic Unrest</td>
<td>0.02</td>
</tr>
<tr>
<td></td>
<td>(0.04)</td>
</tr>
<tr>
<td>Alliance</td>
<td>0.64</td>
</tr>
<tr>
<td></td>
<td>(0.35)</td>
</tr>
<tr>
<td>Contiguity</td>
<td>-0.44</td>
</tr>
<tr>
<td></td>
<td>(0.29)</td>
</tr>
<tr>
<td>Distance</td>
<td>-0.69**</td>
</tr>
<tr>
<td></td>
<td>(0.17)</td>
</tr>
<tr>
<td>Constant(^3)</td>
<td>6.42**</td>
</tr>
<tr>
<td></td>
<td>(1.55)</td>
</tr>
<tr>
<td>N</td>
<td>6,219</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-413.82</td>
</tr>
</tbody>
</table>

1. \(*_p<=0.05, **_p<=0.01.\)
2. Standard errors are in parentheses.
3. Results for time dependence controls and their cubic splines are not reported here in order to save space.
In the two treated models, my main independent variable CIE is still highly significant at the $p<=0.01$ level even when the effect of all the competing variables and control variables is held (Table 6.9, models 2 and 4). The only endogenous variable which is statistically significant in the control groups—Joint IGOs changes the direction of the estimate or loses significance when CIE is introduced into the treated models (Table 6.9, models 2 and 4). These results further increase the confidence of the robustness of my main independent variable CIE in estimating China’s conflict involvement and use of force.

**Conclusion and Discussion**

In this chapter, I mainly tested my major hypothesis of this study: whether the increase of contract intensity at home will make the PRC more peaceful abroad. In the qualitative part of this chapter, I used the COW project’s MIDs data set (V4.3) to have a brief review of the data on the dependent variable side that is China’s involvement in military conflicts and use of force. The data clearly show a trend in China’s conflict behavior: fluctuating yet decreasing trend in involvement of fewer conflicts and consistent and decreasing trend in uses of force. This means that even if China still involves in conflicts with other states, its willingness to use violence to solve conflicts has steadily decreased. A comparison between China and other great powers also shows such a pattern. China was the most conflictual great power during the Cold War, having the most frequent uses of force. However, in the post-1991 years, China is the most peaceful great power in this regard.
In the quantitative section, I mainly use large-N statistical models to test whether the change observed earlier in China’s conflict behavior was caused by the socioeconomic change happening at home. The statistical results strongly support my hypothesis. Some typical variables believed by former researchers to be relevant in predicting China’s conflict behavior actually do not count anymore in my models. They are theoretically irrelevant and practically not significant in my statistical tests. My statistical models also show that though the PRC’s hard power has increased phenomenally in the last few decades, this quick growth did not cause China to become a more aggressive challenger of the international order. Actually, Beijing becomes even more peaceful under this fast-changing background. This result confirms findings of several earlier studies and serves as another rebuttal to Realist arguments that China’s rise cannot be peaceful (Johnston 1998; Li 2013, 2014; Xiang et al. 2015).

The Causal Mechanism

Though my statistical tests strongly support my hypothesis that China’s contractualist development caused this great power to be less conflictual, they do not provide a detailed causal mechanism of how contractual economy made China’s conflict behavior more peaceful. I introduced in Chapter 3 the positive feedback loop of “CCP legitimacy-economic development-more legitimacy,” which is the starting point to understand the basic drive behind the CCP’s economic and political reforms since the late 1970s.

The bankruptcy of the Cultural Revolution and Mao’s death had evidently shown to the CCP leadership that Mao’s model had failed to develop China and deliver benefits to the Chinese population. In terms of GDP per capita, China was even poorer than many African countries at
the moment. The CCP was no doubt in a legitimacy crisis. The CCP leadership knew that China needed reforms, but just did not figure out how to begin the reforms. After Deng recovered his leadership position within the party, he paid visits to neighboring countries such as Japan and Singapore. The rapid economic growth and high development level in these nations deeply impressed him and seriously provoked his thoughts.

Shortly after he visited those neighboring countries, Deng made two important decisions concerning foreign policy. One was to improve bilateral relations with its neighbors by stopping its revolutionary propaganda and material support to anti-government organizations in the neighboring countries (Wang and Ong 2009). The other was to establish diplomatic relations with the United States.

On the plane to Washington during Deng Xiaoping’s first official visit to the United States as the PRC’s leader in 1979, an accompanying CCP official asked Deng why he attached so much importance to the Sino-American relationship. Deng said “Look back at the last several decades. All the countries that foster good relations with the U.S. become rich.” 108

After China’s opening up and economic reforms, continuous investment from its neighboring countries and Western states greatly helped start the economic development in China. Without Deng’s foreign policy changes, such inflow of investment would probably be impossible.

108 This was a conversation between Deng and Li Shenzhi, then the vice president of the Chinese Academy of Social Sciences, who traveled with Deng to America. For more details, see Yang Hengjun, “Why China Still Needs Deng Xiaoping” in Diplomat, November 19, 2014. Last retrieved on July 15, 2020 at: https://thediplomat.com/2014/11/why-china-still-needs-deng-xiaoping/
Of course, it is quite natural to observe that not all the population was happy when China transitioned to a market economy. This corresponds to what Polanyi (1957) called the “double movement.” The Tiananmen incident in 1989 was an example of such countermovement to the development of market economy in China. The economic reforms brought numerous laid-off workers and rampant corruption. As discussed earlier in Chapter 5, some survey data show that the Tiananmen demonstrations were more anti-reform rather than pro-democracy (Tang 2018).

Deng and other pro-reform leaders within the CCP continued economic reforms but tightened political control afterwards. The CCP needed the market development to increase economic benefits of the Chinese people, thus improving its legitimacy, but at the same time, it also tried hard to monopolize political power and maintain effective control of the state. Of course, these two aims sometimes are contradictory, but the CCP maintained a good balance in the last four decades to achieve both objectives. If we understand this basic logic, then it is easy to understand the drive behind China’s market economy development. All means as long as they can help maintain and strengthen the CCP’s rule, the party would be happy to support such policies. Therefore, it is quite understandable that though China has made great achievements in economic development, there has no meaningful progress of democratization in China. On the contrary, economic development has given the increasingly powerful CCP more tools as well as more confidence to intimidate any challengers to its rule. That also explains why Xi Jinping increasingly strengthened his power since inauguration but maintains the openness of the Chinese economy.

In addition, China’s economy is different from that of Russia which heavily relies on resource exports. China is a manufacturing hub of the whole world and has a strong interest in
maintaining a robust world market for its products. Geopolitical conflicts might push up prices of many raw materials and resources such as oil, which obviously turns against China’s interests. Conflicts might also negatively influence the world market needs for Chinese products. Therefore, Beijing has a strong desire to help keep a stable and peaceful world order.

China’s New Assertiveness

The MIDs data set (v4.3) only documents states’ conflict data until the year 2010. The PRC has clashed militarily several times with its neighbors in the East and South China Seas in the 2010s. Many China observers claim that the PRC has become more assertive in recent years (Swaine 2010; Johnston 2014). Some analysts even believe that Beijing has abandoned Deng Xiaoping’s dictum of “hide your light and bide your time” and instead has started to pursue a different grand strategy in foreign policy making.109 Since the Trump administration came into power in early 2017, the United States and China have had several rounds of “trade wars” and the world has not witnessed a way out of this deadlock between the two global powers. Competition between the two states in other areas such as Internet espionage, high technology such as the 5G mobile phone network technology and South China Sea further strangled the bilateral relationship.

In 2018, Xi Jinping changed the PRC’s constitution and broke the rule set forth by Deng Xiaoping that no leaders can have more than two consecutive terms in the highest state

109 For one example, see the talk made by former Australian Prime Minister and also a China expert Kevin Rudd on this topic at: https://www.belfercenter.org/publication/emperor-xis-china-done-biding-its-time
organizations.\textsuperscript{110} This almost equals to declare by Beijing that Xi will be President for life. Xi has also seriously tightened control on the Chinese population in the ideological area, making himself more similar to Mao in this regard.

All the changes happening in Beijing’s domestic politics and foreign behavior seems to contradict the prediction of my theory, but it does not necessarily mean that China has regressed to Mao’s era. As discussed in Chapter 3, China is still on its way to develop a more sophisticated market economy. Therefore, its preference in a prosperous domestic and world marketplace has not changed. The positive feedback loop of “CCP legitimacy-economic development-more legitimacy” still exists in China today. We have confidence that Beijing still needs the world market to boost its domestic economy and its benefits and welfare. China will continue to be embedded in the current international order. Therefore, the trajectory of China’s conflict behavior will maintain the trend as we observed here in this chapter. More discussions will be made in the next chapter about how the United States and China will get along with each other in the 21\textsuperscript{st} century.

CHAPTER 7: CONCLUSION

Summary of Findings

This dissertation was mainly motivated by the big question of whether China’s rise will be peaceful. Though prediction is a discouraged modus operandi in social sciences, it is the great need posed by reality that drives students of International Relations and Security Studies to seek and develop a scientific theory. By “scientific,” I mean the theory must be first firmly based on fact. There is no such theory that is universally correct. It must take into consideration of at least the majority information concerning a subject. Loss of information causes misunderstanding, and that can be dangerous. The current popular theories explaining China’s rise are such typical examples. The realist theories especially its offensive branch are based on unfounded assumptions and simply equalize power to threat. The democratic peace theory inherently regards democracies good and authoritarianism bad. Without opening the “black box” of the state, the two theories will never solve the problem of information loss. More importantly, China policies based on such flawed theories could be self-fulfilling prophecies. As Harvard political scientist Joseph Nye famously pointed out, if you believe China is a threat, then it will become a threat.

The economic norms theory provides a key to open the “black box” of China. It can explain many puzzles that those popular theories cannot explain: why a bad undemocratic regime steadily improves rule of law? Why a highly repressive government enjoys higher support from its population than those democracies do? Why an increasingly authoritarian government is more
responsive to the needs of the people than democratic states do? Why many U.S. allies are not joining the United States to contain a rising China? The key is about understanding of a comprehensive picture of the economic, social and political transformations brought by the development of the market economy started four decades ago. This is the fundamental fact that have been unforgivably neglected by many political scientists.

I first introduced alarming facts happening between the United States and China in recent years, which have the risk of dragging the two great powers into another dangerous “Cold War.” I pointed out how and why the current popular theories are not able to explain the puzzles concerning China. I then introduce the economic norms theory and explain why it is good to understand the rising China.

By opening the “black box” of China, I started to search and document how the market economy has fundamentally changed this country. In Chapter 3, I introduced why and how the CCP would start economic reform and proposed the positive feedback loop in China that will further lock in market economy. I also documented how China has changed in its economy as a result of the market reforms. Then, I tried to explore how such change of economic conditions may influence China on three different levels: individual, national and international.

In Chapter 4, I used content analysis tools to study different generations of top leaders’ speeches and discovered significant divergence between Mao, Deng and the more recent leaders. I then use macro and micro-context factors to test in regression models whether such differences were caused by different context they were situated in. The results show that the changed economic conditions—growth of contract intensity caused by market development did play a
role in pacifying Chinese leaders’ understanding of the outside world and moderating their approach to work with others.

In Chapter 5, I tracked national and social-level changes in formal institutions such as rule of law, accountability and state capacity, as well as informal institutions such as the rise of individualism and interpersonal trust. I offer an explanation on puzzles such as why the CCP promoted rule of law and why the party-state is highly popular. I also develop a mini theory of authoritarian resilience after comparing the Singapore model with the Chinese one of responsive authoritarianism.

In Chapter 6, I analyzed change in China’s conflict behavior as recorded in the Correlates of War (COW) project’s Militarized Interstate Disputes (MIDs) dataset. Then, I used several carefully defined regression models to test my hypothesis whether the increasing contract intensity in the Chinese economy has any moderating effect on the foreign behavior of the PRC. The results of the statistical models support my expectation that an increasingly contractualist China has largely pacified its conflict behavior by involving in few conflicts and using less violence to solve disputes.

**Major Contribution**

The findings of the dissertation suggested some real contributions to the economic norms theory and foreign policy studies on U.S.-China relations. Though these findings may not be generalized, because China is in many ways an extreme outlier case. However, they can offer some useful ways for peace and development studies on developing countries as well as studies on authoritarian resilience.
Economic Norms Theory

This study is heavily indebted to the economic norms theory, which provides me very useful theoretical guidance and perspectives to study different sides and areas of China. The findings of the research however also reversely contribute to the theory. In my knowledge, it is the first comprehensive case study on a single nation to test the validity of the theory. Many of the predictions made by the theory were confirmed in the China case. For example, contractualist economy causes different mindset in individuals—their political universe becomes more peaceful and they tend to be more cooperative in dealing with others. Contractualist economy also leads to better rule of law, better governance, and stronger state capabilities. Contractualist economy can largely pacify China’s conflict behavior.

The dissertation also provides an explanation of the counterintuitive phenomenon that an economically more liberal regime becomes politically more repressive. This suggests that the real world is always more complicated than we think. This finding is not against the theoretical predictions of the economic norms theory, but rather adds more explanatory power to it. Democracy is intuitively the best tool for accountability (Mousseau 2019), but democracy is not accountability itself. States are held accountable by many factors, not just by the pressure from elections. Democracy does not necessarily guarantee accountability. Many poor democracies have a corrupt government which often does not respond to people’s needs.

Studies on U.S.-China Relations
My findings may provide a broader understanding of the US-China relations and contribute to international relations theories especially studies on great power politics and the power transition theory. Offensive Realism (Mearsheimer 2003) assumes that all great powers seek to maximize their power. And the increased power of a rising state is inherently a revisionist threat. My findings reject such an assumption on the rise of a great power like China. A market power agrees with the fundamental rules of the current global order. Though China does pursue expanded decision-making power in some key international organizations, these should not be regarded as signs of a revisionist rising power. Japan also had such demands in the 1980s and 1990s. The United States successfully accommodated a rising Japan. Why can’t it do the same to China?

Similarly, the most difficult thing for power transition theorists is to model the rising state (the challenger)’s intention relative to the dominant power, whether it is status quo or revisionist (Organski 1958). The findings of this study suggest that a market power like China has a strong interest in the current global order which cherishes self-determination and favors peace and world trade. There is no clear evidence as well as logically unsound to suggest that China will pursue a revisionist path to alter such an order. Xi Jinping’s massive campaign of “One Belt One Road” Initiative, therefore, should not be regarded as China’s scheme to control the world. It is rather what a strong market power would do to create economic growth and opportunities elsewhere, which will finally benefit itself in more economic welfare. It is quite similar to what the United States had done in Europe and Japan after WWII using its Marshall Plan.

This dissertation also refutes the delusions of the democratic peace theorists. Democracies and only those contractualist democracies do not fight against each other
(Mousseau 2003). It is the contractualist economy not democracy itself has made this world a safer place than it was before WWII. Any attempts aiming to instigate democratic uprisings in China will cause serious results. My findings suggest that “premature” democratization will either help election of popular nationalist forces into the power center or assist conservative anti-market clique within the CCP snatching power. They would only adopt policies serving narrow national interests and harm market growth. This was what exactly happened after the Tiananmen Square protests. Such leaders may further polarize politics at home and divert domestic hostility against foreign countries. They are most likely to answer the call of a fervent nationalist mood and challenge the current global order with malicious military power.

China has two contrasting images in the United States: a cute panda and an evil dragon. In recent years, a near-consensus seems to be forming among policy makers in Washington that the People’s Republic of China is more of an evil dragon than a cute panda, using “sharp power” to threaten U.S. interests and world peace. Beijing is regarded by the current U.S. administration as a “strategic competitor,” and a new Cold War seems to be looming between the world’s two largest economies.

As my findings show, currently, China seems to be more a panda rather than a dragon. However, Washington needs to remember that though vegetarian and non-predatory, pandas are bears with sharp teeth and nails. When pressured and cornered, they can be dangerous. The misunderstanding and fear of China, rather than the rise of China itself, is the real cause of the recent rise of US-China frictions.

*Peace and Development in Developing Countries*
My findings provide more evidence to the authoritarian resilience debate. I demonstrate that how a pro-market authoritarian government might actually do good to the economy, the people and finally the world as a whole. The West should support those pro-market and pro-development authoritarian leaders in the developing world if they are already in power. Policies taken by Western democracies after the so-called “Arab Springs” only backfired and created more disastrous results for countries like Libya and Syria. These tragic results finally further deteriorated politics at home when Middle Eastern and North African refugees crowded into Europe. Far-right nationalist parties rose to power and adopt more anti-immigrant and anti-market policies. Democracy and rule of law retreated in countries such as Poland and Hungary (Reuters 2019).

My findings may also give advice to international aid projects, which often attach some preconditions to their aid such as democracy and good governance. My findings suggest that good governance and rule of law is a result of market development. Those who need aid normally cannot meet such preconditions because of their weak market and low development level. So, agencies in charge of such international aid put the cart before the horse. The reality is that the developing world is in great need of economic aid, while the supply of such international aid can never meet the demand. The establishment of China’s Infrastructure Investment Bank provides more supply for international aid and was widely welcomed by many developing countries. Many contractualist economies such as Great Britain, Germany, Australia all joined hands with China. The management team is made up of several highly professional economists
and former government officials. The president is a Chinese national while the five vice-presidents are nationals of Great Britain, Germany, India, Indonesia, and Russia.  

Limitations and Future Work

Despite the contributions discussed above; this dissertation also has some obvious limitations. First, this dissertation mostly relies on macroeconomic data and second-hand literature. I do not test the theories of how an individual economic man would behave in a non-perfect market economy like China’s (Chapter 4). This dissertation deserves some well-designed experimental studies and delicate field work, in order to understand the details of the great transformations China is experiencing.

Second, I do not come up with a detailed causal mechanism to exactly explain how the growth of contractualist economy finally leads to China’s pacific foreign behavior. It would be much better if I could do a field study in China to capture specific data to support my major argument. Such work could include interviews with manufacturers of export goods, government officials in charge of development and foreign trade, and so on. But of course, such efforts need significantly more investment of time and funding. This could be a direction for future research.

Third, the application of high technology is significantly changing the Chinese people’s daily behavior. The rise of the e-commerce and the outsourcing of state power of third-party enforcement to online commerce companies may significantly change the relationship between individuals and the state, individuals and businesses, as well as businesses and the state. Also,

111 For more details, see the website of the AIIB: https://www.aiib.org/en/about-aiib/governance/senior-management/index.html
China now is leading the world in many ways such as online shopping, online social networking, online cashless payment, application of artificial intelligence, and so on. People have shifted a large part of their daily activities towards the Internet and have left tremendous footprints in the virtual world. Now, AI technology enables the state to track most individual’s economic, social and even political activities online at a very low cost. If the state can learn all the information it needs, would it still need the “invisible hand” of the market to allocate resources? If technology can achieve some major objectives that the market formerly helps achieve, will the state still be interested in relying on the market? The CEO of one Chinese e-commerce giant JD.com claimed that AI might make communism a reality in China within his generation. Will the economic norms theory still be reliable in such circumstances? Will Newton’s theory still work in Einstein’s world? This might be another interesting direction for future research.

112 For more detailed information about his argument, see “Technology can help realize communism: JD.com CEO,” Global Times, August 20, 2017. Last retrieved on March 31, 2020 at: http://www.globaltimes.cn/content/1062242.shtml
APPENDIX A
CHINA’S TERRITORIAL DISPUTES WITH NEIGHBORING STATES
(2002-2010)
### China’s Territorial Disputes with Neighboring States 2002-2010

<table>
<thead>
<tr>
<th>Country</th>
<th>Territory</th>
<th>Start Year</th>
<th>Resolved</th>
<th>China Challenger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhutan</td>
<td>Doklam-Sinchulumpa-Gieu</td>
<td>1971</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>India</td>
<td>Arunachal Pradesh</td>
<td>1947</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>India</td>
<td>Sikkim</td>
<td>1959</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>India</td>
<td>Trans-Karakoram Tract &amp; Aksai Chin</td>
<td>1962</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Japan</td>
<td>Diaoyu/Senkaku Islands</td>
<td>1972</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Southern Spratly Islands</td>
<td>1979</td>
<td>NO</td>
<td>NO</td>
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<tr>
<td>Philippines</td>
<td>Kalayaan (Eastern Spratly Islands)</td>
<td>1971</td>
<td>NO</td>
<td>NO</td>
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<tr>
<td>Russia</td>
<td>Amur &amp; Ussuri River Islands</td>
<td>1954</td>
<td>YES</td>
<td>YES</td>
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<tr>
<td>Tajikistan</td>
<td>Sarykol Range</td>
<td>1991</td>
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<tr>
<td>Taiwan</td>
<td>Pescadores Islands</td>
<td>1949</td>
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<tr>
<td>Vietnam</td>
<td>Paracel Islands</td>
<td>1975</td>
<td>NO</td>
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<tr>
<td>Vietnam</td>
<td>Spratly Islands</td>
<td>1975</td>
<td>NO</td>
<td>NO</td>
</tr>
</tbody>
</table>

113 All claims are recorded by the ICOW Territorial Claims Data Set (Frederick, Hensel and Macaulay 2017). No new claims documented by author. Names of territory may be different in Chinese diction.


116 Taiwan (The Republic of China) and the PRC both claim the whole of China (mainland and Taiwan Island). These two claims are recorded in the ICOW Territorial Claims Data Set and are deleted here.
APPENDIX B
SOURCES OF CHINESE LEADERS’ VERBAL MATERIALS
<table>
<thead>
<tr>
<th>Year</th>
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<tr>
<td>Year</td>
<td>Document</td>
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<tr>
<td>------</td>
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<tr>
<td>1955</td>
<td>Mao’s concluding speech at the National Conference of the Communist Party of China, March 1955. (5711 words)</td>
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<tr>
<td>1957</td>
<td>Mao’s talks at a conference of secretaries of provincial, municipal and autonomous region party committees. January 1957. (4330 words)</td>
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<tr>
<td>1958</td>
<td>Mao’s talks at the Nanning Conference, January 11, 1958. (4239 words)</td>
</tr>
<tr>
<td>1959</td>
<td>Mao’s speech at the Lushan Conference. July 23, 1959. (6316 words)</td>
</tr>
<tr>
<td>Year</td>
<td>Event</td>
</tr>
<tr>
<td>------</td>
<td>----------------------------------------------------------------------</td>
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<tr>
<td>1964</td>
<td>Excerpts from Mao’s Talk on Questions Of Philosophy. “Mao chu-hsi tuí P’eng, Huang, Chang, Chou fan-tang chi-t’uan ti p’i-p’an.” August 18, 1964.</td>
</tr>
</tbody>
</table>
2. Speech to The Albanian Military Delegation. May 1, 1967 |                                                                                           | 4964  |
| 1973 | 1. Mao’s talk with U.S. Secretary of State Kissinger. February 17, 1973  
2. Mao’s talk with U.S. Secretary of State Kissinger. November 12, 1973 |                                                                                           | 6559  |
2. Deng Xiaoping’s speech at the United Nations. April 10, 1974. |                                                                                           | 5590  |
<table>
<thead>
<tr>
<th>Year</th>
<th>Excerpts</th>
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</table>
2. “Mao Zedong Thought Must Be Correctly Understood as an Integral Whole,” Excerpt from Deng Xiaoping’s speech at the Third Plenary Session of the Tenth Central Committee of the Communist Party of China. July 21, 1977 (5075 words) |
| 1978 | Deng Xiaoping’s speech at the opening ceremony of the national conference on science. March 18, 1978 (6166 words) |
| 1979 | “Uphold the Four Cardinal Principles”, Deng Xiaoping’s speech at a forum on the principles for the Party’s theoretical work. March 30, 1979 (4634 words) |
3. “Our Principled Position on the Development of Sino-U.S. Relations.” Excerpt from Deng Xiaoping’s talk with Theodore Fulton Stevens, a Republican and assistant leader of the U.S. Senate, and Anna Chennault, Vice-Chairman of the Presidential Export Committee. January 4, 1981 (4208 words) |
| 1982 | 1. Deng Xiaoping’s speech At a Forum of the Military Commission of the Central Committee of the CPC. July 4, 1982  
2. “China’s Foreign Policy.” Excerpt from Deng Xiaoping’s talk with Javier Perez de Cuellar, Secretary-General of the United Nations. August 21, 1982  
3. “China’s Historical Experience In Economic Construction.” Deng Xiaoping’s remarks at a meeting with the Liberian Head of State, Samuel Kanyon Doe. May 6, 1982  
4. “Combat Economic Crime.” Deng Xiaoping’s speech at a meeting of the Political Bureau of the Central Committee of the CPC. April 10, 1982 (5085 words) |
<p>| 1983 | “The Party’s Urgent Tasks On the Organizational and Ideological Fronts.” Deng Xiaoping’s speech at the Second Plenary Session of the Twelfth Central Committee of the Communist Party of China. October 12, 1983 (5114 words) |
| 1984 | Deng Xiaoping’s speech at the Third Plenary Session of the Central Advisory Commission of the Communist Party of China. October 22, 1984 (4585 words) |</p>
<table>
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<th>Year</th>
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<th>Details</th>
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<tr>
<td>1985</td>
<td>1. “Reform Is the Only Way For China to Develop Its Productive Forces.” Excerpt from Deng Xiaoping’s talk with Robert Mugabe, Prime Minister of Zimbabwe. August 28, 1985</td>
<td>(4281 words)</td>
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<td>2. Deng Xiaoping’s speech at the National Conference of the Communist Party of China. September 23, 1985</td>
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<td>1986</td>
<td>1. Deng Xiaoping’s replies to the American TV correspondent Mike Wallace. September 2, 1986</td>
<td>(4784 words)</td>
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<td>2. Deng Xiaoping’s talk at a meeting of the Standing Committee of the Political Bureau of the Central Committee. January 17, 1986</td>
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<td>1987</td>
<td>1. Excerpt from Deng Xiaoping’s talk with General Secretary Kádár János of the Socialist Workers’ Party of Hungary. October 13, 1987</td>
<td>(4800 words)</td>
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<td></td>
<td>2. Excerpt from Deng Xiaoping’s talk with Stefan Korosec, member of the Presidium of the Central Committee of the League of Communists of Yugoslavia. June 12, 1987</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>1. Excerpt from Deng Xiaoping’s talk with President Joaquim Alberto Chissano of Mozambique. May 19, 1988</td>
<td>(4114 words)</td>
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<tr>
<td></td>
<td>2. Excerpt from Deng Xiaoping’s talk with a military delegation from the Democratic People’s Republic of Korea. May 19, 1988</td>
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<td></td>
<td>3. Excerpt from Deng Xiaoping’s talk with Milo Jake, General Secretary of the Central Committee of the Communist Party of Czechoslovakia. May 25, 1988</td>
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<td>4. Excerpt from Deng Xiaoping’s talk with the participants in the International Conference on China and the World in the Nineties. June 3, 1988</td>
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<td></td>
<td>5. Excerpt from Deng Xiaoping’s talk with Zbigniew Messner, member of the Political Bureau of the Central Committee of the United Workers’ Party of Poland and Chairman of the Polish Council of Ministers. June 7, 1988</td>
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<td>6. Excerpt from Deng Xiaoping’s talk with President Mengistu Haile Mariam of Ethiopia. June 22, 1988</td>
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<td>7. Excerpt from a talk with President Gustav Husak of Czechoslovakia. September 5, 1988</td>
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<td>1989</td>
<td>1. Deng Xiaoping’s address to officers at the rank of general and above in command of the troops enforcing martial law in Beijing. June 9, 1989</td>
<td>(5021 words)</td>
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<td>2. Excerpt from Deng Xiaoping’s talk with leading members of the Central Committee of the CPC. June 16, 1989</td>
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<table>
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<th>Year</th>
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<td>1990</td>
<td>Excerpts from Deng Xiaoping’s talks given in Wuchang, Shenzhen, Zhuhai and Shanghai. January 18 – February 21, 1992 (5763 words)</td>
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<td>1991</td>
<td>Excerpts from Deng Xiaoping’s talks given in Wuchang, Shenzhen, Zhuhai and Shanghai. January 18 – February 21, 1992 (5763 words)</td>
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<td>1992</td>
<td>Excerpts from Deng Xiaoping’s talks given in Wuchang, Shenzhen, Zhuhai and Shanghai. January 18 – February 21, 1992 (5763 words)</td>
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<td>1993</td>
<td>1. Jiang Zemin’s Speech at the 1st session of 8th National People’s Congress. March 31, 1993 2. Jiang Zemin’s Speech “Our Diplomatic Work Must Unswervingly Safeguard the Highest Interests of the State and the Nation.” July 12, 1993 3. Speech by President Jiang Zemin during His Meeting with the International Members of CCICED. May 05, 1993 (4048 words)</td>
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<td>Year</td>
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<td>1999</td>
<td>Jiang Zemin’s speech at the Symposium Commemorating the 78th Anniversary of the Founding of the Communist Party of China. June 28, 1999 (4822 words)</td>
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</table>
2. Interview by Mike Wallace for CBS’s 60 Minutes in Beidaihe, China. August 15, 2000. (3591 words) |
| 2001 | Excerpts from Jiang Zemin’s speech before an assembly gathered in the Great Hall of the People in Beijing to mark the 80th anniversary of the founding of the Communist Party of China. July 1, 2001 (4325 words) |
| 2002 | Excerpts from Jiang Zemin's Report at 16th Party Congress of CCP. November 17, 2002 (4397 words) |
2. Hu Jintao’s speech at 11th APEC Economic Leaders' Meeting in Bangkok, Thailand. October 22, 2003  
3. Hu Jintao’s joint news conference with Russian President Putin in Moscow. May 27, 2003. (4668 words) |
2. Hu Jintao’s speech at the APEC CEO summit in Santiago, Chili. Nov.19,2004 (4007 words) |
| 2006 | 1. Speech by Hu Jintao at Yale University. April 21, 2006  
| 2008 | Excerpts from Hu Jintao's speech at the Meeting Marking the 30th Anniversary of Reform and Opening Up. December 18, 2008 (4607 words) |
2. Hu Jintao’s speech at the welcoming rally in Dar es Salaam, Tanzania. |
<table>
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<tr>
<th>Year</th>
<th>Event Description</th>
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| 2010 | Hu Jintao's speech at the opening ceremony of the Fifth APEC Human Resources Development Ministerial Meeting held in Beijing. September 16, 2010  
Hu Jintao’s speech at the BRIC Summit in Brasilia, April 16, 2010  
Hu Jintao’s speech at the Fourth G20 Summit in Toronto. June 27, 2010 (5807 words) |
| 2011 | Excerpt of Hu Jintao’s speech at a meeting commemorating the 90th anniversary of the founding of the Communist Party of China. July 1, 2011 (4311 words) |
| 2012 | Excerpt of Hu Jintao’s speech at the 18th National Congress of the CPC. November 8, 2012 (6882 words) |
2. Speech by Xi Jinping at the Boao Forum for Asia Annual Conference 2013 in Boao, Hainan. April 7, 2013 (5621 words) |
| 2014 | 1. Xi Jinping’s address to the Australian Parliament. November 19, 2014  
2. Xi Jinping’s speech at a gathering marking the 15th anniversary of Macao’s return to China and the inauguration of the fourth-term government of the Macao Special Administrative Region. December 20, 2014 (5799 words) |
2. Xi Jinping’s 2015 New Year Message. January 1, 2015 (4640 words) |
<table>
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<tr>
<th>State</th>
<th>Year shift to axial economy</th>
<th>Year shift to democracy</th>
<th>Contractualist? (Year of transition)</th>
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<td>Trinidad</td>
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<td>Mexico</td>
<td>1982</td>
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<td>El Salvador</td>
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<td>Panama</td>
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<td>Peru</td>
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<td>Brazil</td>
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<td>Argentina</td>
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<td>Uruguay</td>
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<td>Belgium</td>
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<td>France</td>
<td>&lt;1960</td>
<td>1920</td>
<td>Yes (1975)</td>
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</table>

117 I normally treat a state as a stable democracy if it can stay democratic (Polity2>5) for at least 5 years. Some countries such as Chile, Uruguay had a stable democracy in history, then they fell back to authoritarian and back to democracy again. I use the most recent year in which they became a stable democracy. Polity4’s data date back to 1920.
<table>
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<th>Country</th>
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<td>Germany</td>
<td>&lt;1960</td>
<td>1955</td>
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<tr>
<td>Austria</td>
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<td>1955</td>
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<tr>
<td>Hungary</td>
<td>1986</td>
<td>1990</td>
<td>Yes (2001)</td>
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<tr>
<td>Italy</td>
<td>&lt;1960</td>
<td>1947</td>
<td>Yes (1989)</td>
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<tr>
<td>Croatia</td>
<td>1995</td>
<td>1999</td>
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<td>Bulgaria</td>
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<td>1990</td>
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<td>Romania</td>
<td>2009</td>
<td>1996</td>
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<td>Russia</td>
<td>2003</td>
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<td>Estonia</td>
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<td>Latvia</td>
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<td>South Africa</td>
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<td>Namibia</td>
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<td>Lebanon</td>
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<td>Japan</td>
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<td>Thailand</td>
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Data source: CINE Mar-2019b; Polity IV project
LIST OF REFERENCES


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Harding, Harry. (1990). The Impact of Tiananmen on China’s Foreign Policy. NBR Analysis: vol. 1, no. 3


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