

## *Review Essay*

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### **A Tale of Two Chinas**

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**Linda Yueh, *China's Growth: The Making of an Economic Superpower*. Oxford: Oxford University Press, 2013. 368 pp. £ 27.99 hardback**

**Emily T. Yeh, *Taming Tibet: Landscape Transformation and the Gift of Chinese Development*. Ithaca, NY, and London: Cornell University Press, 2013. 344 pp. £ 46.50 hardback**

As I launched into this review, the implications of reviewing two books so unlike became increasingly clear to me. Linda Yueh's *China's Growth* is built upon the idea of explaining the Chinese economic miracle and the prospects for further growth for another thirty years; Emily Yeh's *Taming Tibet* explores the depredations wrought upon the soil, water, culture and people of Tibet by this same mode of expansion. Yueh's is an aggregative, national study of China and its international economic relations, whereas Yeh focuses on an ethnographic geography of Lhasa and peri-urban Tibet. The former is premised upon cautious optimism, the latter upon an exposition of structural injustice. Nor can Linda Yueh's proposals for reform in China solve the forms of structural injustice analysed by Yeh.

Turning, as Mao Zedong advised, a bad thing into a good thing, I try to understand the very problem of this kind of incommensurability. Is it possible for sensible people not especially pre-committed to the truth of one or the other side of the story to come out with a coherent view of China? Is China — as is any other nation — a coherent entity? Is it about different groups and aspects of society that will benefit or suffer? Or will one side of the story prevail?

Both books represent a great deal of scholarly research and analytical work. It behoves us to follow their arguments closely. Turning to Yueh, the author has amassed a vast quantum of research from a variety of sources and combines this material with an equal variety of methodological approaches ranging from mainstream neoclassical principles, micro-economics, new institutionalism (especially as it concerns the legal order), social network

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theory, to theories of human capital formation and international trade. Yueh's materials include existing studies in the West and Chinese government sources, as well as compilations and surveys conducted by both Chinese (e.g. national statistical bureau) and non-Chinese researchers. She has accumulated a vast database of statistical and survey information particularly at the micro-economic level which, she argues, also enables her to be more confident about these materials than one could be with Chinese macro-economic data.

Yueh's principal research goal is to understand the 'China paradox' — spectacular growth without well-developed property rights. It certainly requires the range of materials and theories she has marshalled to begin to get a handle on it. Each of her chapters highlights factors or drivers of growth that could be most fruitfully analysed by the most suitable kind of theory. But each of these theories has to be adapted to the particular conditions of China and its recent history as an industrialized socialist economy under state control. This is an unusual strategy for an economic analysis and she may well be charged with eclecticism, but for the generalist who has the stomach to deal with the data, theories and the mathematical analyses (which are, however, not critical to grasping the analysis), the results are more satisfactory than a more specialized theoretical application.

Thus for instance in her analysis of Chinese economic growth, she evokes neoclassical models to grasp whether growth has been driven by accumulation of capital and labour or by true productivity growth (total factor productivity). This may be one of her most interesting and original contributions. While Yueh statistically demonstrates the widely acceptable notion that about 50 per cent of China's GDP growth is due to capital investments, the remaining factor shares are more interesting. Labour productivity spiked during an earlier period in the 1990s but she argues that it was caused by a one-off re-allocation of labour (and capital) from the state-owned enterprises (SOEs) to the private sector; beyond that, labour productivity increases have been much smaller. In general, capital and labour account for about 60–70 per cent of GDP growth while total factor productivity (TFP) contributes the rest.

Total factor productivity is increased by inventions, technical improvements, organizational innovations, improved labour skills and enhanced research and development. In Yueh's view, much sustained economic growth in the mature capitalist economies is a result of enhanced total factor productivity. She argues that while today research and development in China is growing fast, foreign investment was among the most significant factors over the last few decades, not only by contributing to GDP growth — accounting for about 30 per cent of GDP growth — but also by introducing technology and innovation into the local economy. Joint ventures were particularly significant in this diffusion. Whether by formal transfers or by imitation, this factor has been the most significant contributor to productivity growth until perhaps the recent turn to research and development in certain sectors. From

the perspective of her research question, the theoretical view of sustainable economic growth has to adjust for the 'catch-up' technology that China has effectively utilized. It would seem either that the TFP model assumes an unwarranted endogeneity or that to have 'genuine' sustained growth, reform will be needed in China.

Another of Yueh's chapters deals with the related problem of human capital development. High levels of education and skill formation, particularly on China's developed east coast, are positively co-related with higher levels of productivity. But she finds that one of the factors that stymies endogenous productivity growth is the institutional barrier to improving human capital and skill upgrading. Urban residents and the political system restrict access to these services among migrant workers through the residence or *hukou* system, especially when they represent competition at these higher levels of employment. Whether the present programme of urbanization of the interior will address this problem remains to be seen.

Yueh considers other drivers of growth in the absence of well-developed legal protection and financial access for business growth. As the private sector in industrial production and services burgeoned from the 1990s, social networks stepped into the vacuum, both at the household and community levels. A study by Victor Nee and Sonja Opper has shown that private enterprise now accounts for approximately 70 per cent of GDP (2012: 262). These enterprises, such as in the famous industrial clusters in Wenzhou, facing very high rates of interest on loans from state banks and inadequate legal protection, have had to bypass the system and utilize their personal, local and regional networks of support and reciprocity norms (*guanxi*) to succeed. To be sure, the Property Rights Law of 2007 has extended a measure of security to private entrepreneurs, but Yueh believes there is still considerable 'financial repression' of the private sector as a result of the deliberate privileging of the SOEs by the state. Cheap credit from the state banks is diverted to the SOEs which are less productive than private enterprise. The real interest rates for non-state borrowers is very high since the difference (in 2012) between lending rates (at 6.31 per cent) and deposit rates (3.25 per cent) for citizens is very wide.

Finally, another significant contribution Yueh makes concerns the role of China's integration into the global economy and the resulting problem or intensification of global trade imbalance. She notes that since China joined the WTO in 2001, it gained 10 per cent of global trade share; but China's share of consumption has fallen to less than 40 per cent of GDP. In this context, it is hardly surprising that there is a severe imbalance in the global economy particularly between China and the USA, although we may note that the US trade deficit has been falling rapidly since 2008, from 6 per cent of GDP to the current 2.3 per cent (2014). As Yueh shows, much of the 4 trillion dollar surplus held by emerging economies and oil-producing countries in the 2000s often found its way back into US financial markets, thus leading to the asset bubble crash in 2008 which caused the global

financial crisis. Yueh's analysis succeeds in showing that the crisis may have resulted in a financial collapse but the major factor underlying it was the global imbalance in the macroeconomic context.

Yueh's proposals for sustaining China's growth derive from her analysis, but at an angle. Whereas in the analysis there is considerable attention to social networks, technology imitation and transfer as well as attention to the gradual unfolding of reforms by the state (feeling the way stone by stone, in the words of Deng Xiaoping), she believes that for the future, China will have to follow the basic principles pursued by mature Western capitalist countries which are guided by neoclassical economic theories. In particular, she wants to find the conditions for sustained economic growth which can happen only with continuous productivity increases. While Yueh is by no means a free market fundamentalist, this would require a market society with a level playing field where the state plays a role in the economy by providing legal guarantees and social protection through enhanced welfare schemes. Most of all, reforms are needed so that the state ceases to distort the market through its privileging of SOEs and financial repression of its entrepreneurs and may also promote higher levels of consumption on the part of its workers and citizens.

While these may appear to many as perfectly reasonable proposals, there are grounds to raise some questions about them. The assumption that mature Western economies have a sustainable model of growth is in many ways questionable, especially given the recent financial crisis and its continuing effects. As Yueh herself has concluded, beneath the crisis lay macro-economic imbalances produced initially by the flight of *productive* investment to emerging markets. The continuing shrinkage of the middle classes in the West also questions the sustainability of the economic model pursued in these societies. Most of all, there is the looming question of sustainability itself — sustainability not of GDP growth but of the planetary environment.

There is very little discussion in the book of the environmental costs of China's breakneck growth. In 2012, when global carbon emissions per capita worldwide were 4.6 million tons, the USA continued to emit 18 tons per person. Meanwhile, China exceeded the world average by an emission rate of 6.3 tons per person. The country as a whole already emits more carbon dioxide than the USA and Canada put together (*The Guardian*, 2012). To be sure, China has made remarkable efforts in environmental protection as well. In 2007, President Hu Jintao coined the idea of Ecological Civilization through which he sought to replace economic construction as the core of development with sustainable development that must incorporate a balanced relationship between humans and nature. The central government in China has been steadily developing the institutional and financial infrastructure of environmental protection.

At the same time, however, top-down state mandated agendas are unlikely to fulfil the task of environmental protection, in part because the state itself sends mixed messages with regard to local output growth targets. It is also

constituted by different agencies and levels of government with varying if not contradictory attitudes towards the environment. The recent announcement (November 2014) by the USA and China of an agreement to limit carbon emissions is a very promising and even landmark event. However, it is only a beginning and is neither irreversible nor does it, by itself, promise a reversal of climate change trends.

Linda Yueh's study, excellent as it is in its insights, thus remains incomplete because it does not build in the high costs of this spectacular growth. Such costs involve environmental degradation and social unrest which do not appear to be legible to the economic models she utilizes. The model would have to account for costs and benefits of measures to rein in environmental degradation that include not only economic policies and regulations, but also the protection of strong social organizations that serve as watchdogs against environmental violations across the world. The weakness of civil society in China may make it harder to achieve sustainability. The steep inequalities and polarization of society accompanying spectacular economic growth are indicated by the steady rise in the numbers of incidents of agitation against the establishment, which exceed 180,000 per year. We do not get any insight into how these problems may be related to China's remarkable economic transformation.

It is in this latter problem — of the social costs of growth — that Emily Yeh makes her contribution, albeit in the distinctive ethnic context of Tibet. This is a subject about which Emily Yeh feels strongly. Yeh is interested in the structural conditions under which Tibet is incorporated into Chinese state territoriality. By *territorialization*, Yeh refers to the naturalization of Tibetans' association (if not identification) with the Chinese state and the production of the sense that China's borders represent the natural container for Tibet. At the same time, this process also produces Tibet and Tibetans as the periphery of the nation. Tibetans are simultaneously excluded from the nation 'as an internal other always in need of improvement' (p. 265).

Informed by spatial and cultural theory from geography and anthropology as much as by political economy, Yeh studies the material transformation of the Tibetan landscape from the 1950s until the present. It is a remarkably fruitful strategy, especially for a place like Tibet because of the exceptional nature of the terrain and mixed modes of cultivation and pastoralism, settlement and nomadism. Moreover, the intense sacredness of the landscape is evident to all as we continue to see thousands of pilgrims circumambulating the most holy sites and prostrating across the land 'pressing, vocalizing and listening' to the earth (p. 65).

The military and political occupation authorities of Tibet from the PRC sought to transform what they saw as barren (*huang*) and empty (*xu*) wastelands and people into efficient and productive resources. Yeh demarcates three phases of this transformation, which one may conclude has been a failure as far as the bulk of the people are concerned and has had insalubrious effects on the fragile ecology. The first phase, during the Maoist

period, involved the creation of state farms and later collectives. Although this project to conquer nature was conducted in the spirit and songs of Maoist campaigns ('Who says sacred springs cannot be moved? Why can sacred trees not be cut?'; p. 67), Tibetans, especially Tibetan women who had been impoverished and gained livelihood and status from this project, spoke to Yeh nostalgically about those days before decollectivization.

The second phase began with the relaxation of the *hukou* system in 1984 which saw the large-scale transfer of cadres and the migration — mostly seasonal — of Han agriculturalists and construction workers mainly from Sichuan. As grain prices began to decline with agricultural self-sufficiency, the government encouraged vegetable farming and even gave special privileges to Tibetan farmers in terms of subsidies for greenhouse facilities, etc. This project was not successful as Han migrant farmers were much more successful than Tibetans in vegetable production and increasingly leased the land and facilities from the Tibetans. Tibetans, however, earn much less as rentiers than do their migrant tenants.

Yeh seeks to analyse this failure in a causal matrix that involves political economy and spatial culture. Tibetans are not lacking in efficiency or hard work when cultivating the crops that they are accustomed to growing on their land: barley and winter wheat. Vegetable farming involves work with night soil, which Tibetans dislike, and in the greenhouse, which they find physically discomfoting. Moreover, Han migrants and cadres harbour racist attitudes towards them and accuse them of indolence and pleasure-seeking which produces a social distance between the communities and with the political system that makes it difficult to transfer technological skills from the Han to them.

The final phase of her study begins in the mid-2000s when the urbanization programme — the Civilized City project — has begun to completely transform the settlement and livelihood pattern of Tibetan communities. The city/country binary did not exist in Tibet in the way that it did in the West and later in China. Rather, markets and settlements that were continuous with farming and herding communities sprung up around monasteries. The new pattern of urbanization involves moving farming households into four storey apartments and de-pastoralizing their livelihoods. The new forms of housing do not have the courtyard workspace or space for farm animals and thus not only deprive the farmers and pastoralists of existing modes of livelihood but also put them in considerable debt. This is exacerbated by the fact that rural land acquisition in Tibet — as in many other parts of China — is not a transparent or easily negotiated process.

It is important to note that Emily Yeh does not seek to demonize the Chinese administration in Tibet. As is clear from subsidies and tax exemptions etc., the goals of this administration are not designed to exploit Tibetans (even if the migrants have more complicated attitudes). Indeed, Chinese see their efforts to develop Tibet as a 'gift' — albeit to a people who seem to be ungrateful for it. Instead, she seeks to show that the process and modes of

transforming the landscape and lives have severely disadvantaged Tibetan communities and marginalized them in their own land. The goals of PRC territorialization which include control and commercialization — symbolized most grandly by the Qinghai–Tibet Railroad — have produced severely unequal conditions of livelihood for Tibetans. Under such conditions, it is a losing and perhaps unwanted battle for Tibetans whose worldviews and ecology fostered the *homo socius*, to be made into *homo economicus*.

Returning to the challenge I posed to myself to try to think these works together, one might argue that there is nothing unusual about these two processes which have been going on since at least the beginning of the capitalist nation state in all parts of the world, starting perhaps with the USA and the incorporation of native American lands — or even the ‘enclosure movement’, if we disregard ethnic difference. Indeed, Frederick Jackson Turner’s concept of the ‘frontier’ as the Manifest Destiny of America is an older version by which the celebratory narrative of American national expansion sought to cover the erasure of the Native Americans and other communities from the nation. Closer to our time and to the contemporary narrative, the Japanese puppet state of Manchukuo (1932–45) in northeast China was declared the most modern and modernizing state in Asia (after Japan). Certainly, in terms of the indices of industrialization, investments and urbanization, it did fulfil this description. Yet this state, which was touted as Asia’s first multi-national state, was a repressive machinery that foisted modernity as a gift of the Japanese leadership onto the mostly Chinese inhabitants. Unlike Manchukuo which returned to the Chinese state at the end of World War II, Tibet is likely to remain part of Chinese territory.

One of the questions we might pose to Yeh’s analysis is whether or how it could be applied to a region without a very distinctive spatial culture such as that of the Tibetans. Theoretically it could perhaps be applied to largely underclass communities defined by certain spatial parameters, but do these communities appear in distinguishable ways in the Han heartland? The answers to these questions could hold the key to grasping the effects of capitalism in China on the fabric of Chinese society. If China succeeds in sustaining economic growth for the next thirty years in the ways proposed by Yueh and creates a fully consumer capitalist society, it is possible that Tibetans will become part of a consuming mass without special identity. Or they may become part of an underclass without a special identity; or, most difficult of all from the point of view of the state, they may become an underclass *with* a special identity.

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