Legacies of Liberalism: Political Agency and the Making of Regional Economies in China

The economic stagnation and lack of social mobility have led many Chinese people to describe the recent era as "the garbage time of history." This pessimism is also accompanied by nostalgia for the 1980s, often considered "the golden time of history." Many Chinese now realize that this brief golden era might have been the only time when they experienced the highest level of autonomy and self-determination. During this period, Chinese citizens enjoyed a unique reprieve from the heavy hand of the state, which has historically manifested in various forms, such as emperors, military dictators, socialist commanders, and international interventions by colonial exploiters. The crackdown on student demonstrations in 1989, which ended the prospects of political liberalization, and the subsequent reassertion of state control, quietly but dramatically ended this era, restoring some of the state's roles as socialist redistributors.

The sole decade in modern Chinese history when people were largely free from state dominance was a result of Deng Xiaoping's policy of decentralization and liberalization, which granted localities the power and responsibility to devise their own strategies to restore the economy, stabilize society, and remake the local state. This decade-long critical juncture maximized the human agency of officials and ordinary citizens alike, providing opportunities for them to make their own development choices and allowing them to flourish, collapse, or drift independently during and after the era. The choices made during this period have had long-lasting impacts, leaving provinces, cities, and families with drastically different destinies that cannot be easily reversed in the near future. These outcomes are part of the enduring legacy of liberalism in China, testifying to the profound effects of the fleeting autonomy experienced during the 1980s.

In this paper, I will examine the effects of political agency, specifically contingent policy choices during this decade, on the making of various types of political economies across Chinese provinces. In the 1980s, key provincial and municipal leaders made distinct decisions, leading their economies on divergent paths. For example, Fujian and Guangxi, two coastal provinces with similar levels of economic development at the beginning of this era, chose market-crafting and state-preserving policy options, respectively, resulting in completely different trajectories of economic development. Generalizing this pattern, these contingent policy choices among eight coastal provinces in China led to two different economic ecosystems: a quasi-liberal market economy in Fujian, Guangdong, Jiangsu, and Zhejiang, and a state-retreating economy in Guangxi, Hainan, Liaoning, and Shandong.

The former indicates a fully-fledged market economy with a strong private sector that is highly integrated with both domestic and international markets. It features a decentralized and entrepreneurial state capable of implementing effective industrial policies suited to local conditions and actively resolving coordination problems for private firms to flourish, leading to a multi-centered and enduring regional development model in China. By contrast, the state-retreating economy refers to an economic ecosystem where the relatively passive state has withdrawn from heavy ownership and dominance, partly paving the way for the growth of the private sector compared to more state-dominated regions. However, the lack of strong market infrastructure and beneficial state-business relations, coupled with a state lacking the capacity and incentives to implement policies favorable to private firms, leaves the local economy stagnant and hovering.

My historical arguments indicate that the four quasi-liberal economies, exemplifying the most liberal and vibrant in China, are legacies of the liberal policies adopted by local leaders in the 1980s. During this time, the central leadership signaled the idea of decentralization and delegated power to localities to develop their own economies without providing a clear plan or mandate on how to do so. These four provinces have the most dramatic stories of economic liberalization in China. Fujian and Jiangsu had the most radical liberals as their first provincial chairmen during this era: Xiang Nan, who demanded the replacement of RMB with a new currency in his constituencies and faced severe political punishment for his radical liberalization, and Xu Jiatun, who fled to the U.S. for political asylum after the 1989 crackdown. Zhejiang and Guangdong were also governed by equally famous but more successful liberals. Xi Zhongxun and Tie Ying, the first provincial chairmen of Guangdong and Zhejiang respectively, publicly demanded power from central leaders to transform local institutions to motivate private and foreign investors to engage in local economies, becoming the most prominent pioneers of economic liberalization. Along with other key municipal leaders, their liberal reforms during this decade-long critical juncture had a long-lasting impact on the nature of local economies.

Specifically, I argue that these four provinces seized the historical opportunity to craft their market institutions during this golden era, initiating a self-reinforcing sequence that fostered long-lasting economic development. Due to the central leadership's policy of decentralization, these provinces and their leaders could allow and even promote multi-center capitalism from below (grassroots capitalists emerging in rural areas) and capitalism from outside (overseas Chinese investors and foreign capitalists) to flourish. On one hand, these leaders permitted capitalism to grow beyond the formal constraints on the private economy imposed by the central government, allowing private actors to create their own informal institutions. On the other hand, several key municipal leaders in these provinces actively improved market conditions by building local infrastructure and establishing formal rules for state agents and economic actors to facilitate the flow of capital, goods, and labor. The result was a multi-center economic landscape relying on private ownership.

Most importantly, the market-crafting approach of these four provinces fundamentally changed local power dynamics. The emergence of a massive private economy ended the state's absolute domination over economic governance. Although it did not create an embedded state as seen in Japan and South Korea, where capitalists are largely consulted in policy-making, it led to an entrepreneurial state reliant on the sustained success of the private sector. This mechanism initiated a self-reinforcing sequence that emphasized decentralized and market-driven approaches in economic governance. During the massive privatization of the 1990s, these provinces actively developed a mature labor market and greatly benefited from the central policy of shock therapy. In the late 2000s, they embraced a market-driven approach, allowing their lower-end industries to collapse, which paved the way for industrial upgrading and facilitated the process of creative destruction. Consequently, these quasi-liberal economies demonstrated a high level of resilience to both domestic and global economic shocks, with diverse industries across their constituent cities.

By contrast, the state-retreating economies resulted either from the state-preserving decisions made by provincial and municipal leaders in Liaoning and Shandong or from laissez-faire reforms in Guangxi and Hainan. These four provinces, although differing in their approaches, generally missed the historical opportunities to develop strong market infrastructure. Governments in Liaoning and Shandong chose to preserve their state institutions and maintain their roles as socialist distributors in the 1980s. They opted to rebuild a few giant state enterprises, contrary to the prevailing historical trend of liberalism, and cracked down on private economies by limiting the development of commodity markets and restricting access to capital. In Guangxi and Hainan, governments initiated laissez-faire policies for economic development but did not actively craft well-functioning market infrastructure during this critical era, leaving their economies and economic actors vulnerable to subsequent political and economic crises. Despite their endowments and the central policies aimed at integrating them into global markets, these two pathways led to the same outcome: the failure to transform economic institutions to facilitate private sector growth in these four coastal provinces.

These decisions had long-lasting legacies. The pro-state power dynamics among state agents and economic actors were not fundamentally changed, leaving governments less incentivized or capable of fostering private sector development. As a result, the economic trajectories of the state-retreating regions diverged from those of the quasi-liberal regions. In the 1990s, these four provinces experienced the shock therapy of massive privatization mandated by the central leadership, for which they were unprepared. The shock led to massive unemployment and local resentment toward liberal reforms among both politicians and citizens, devastating the local labor market and causing a significant population exodus. In the 2000s, these provinces again adopted state-preserving policies in response to global economic crises and domestic economic restructuring. By the 2010s, they reinforced a highly centralized economic development model fueled by local government debt, which has proven to be unsustainable. By investing in capital cities plus, at most, one non-capital city, this centralized model lacks industrial diversity and is thus subject to economic risks.

The divergent paths of these two regional economies highlight the importance of timing and sequence in economic reform processes and contribute to the debate on economic transitions. By bringing subnational variation back into the discussion, this paper explains why some provinces experienced much more successful economic transitions than others. The key was developing a robust private sector and a pro-market state in the 1980s before the massive privatization, radical financialization, and overwhelming global integration that followed. In China, the window for local governments to transform their economic institutions was short, limited to the ten years of decentralization when local agents truly enjoyed delegated power. Provinces that missed the chance to develop basic market infrastructure and transform state institutions in the 1980s found the effects of radical reforms in the 1990s crushing their local economies, leaving them stagnant for decades. This economic stagnation is embedded in local power dynamics between state and economic actors, undermining local governments' incentives to improve economic governance. Meanwhile, a highly stringent and disciplined state has been built since the 1990s, prohibiting economic institutional innovation from below.

This analysis leads us to deepen our understanding of "gradualism" in China's economic transitions. The existing literature on economic transitions suggests that gradual reform, as opposed to shock therapy, explains why China's economic transition was more successful than that of some other post-communist countries, such as Russia. However, subnational variation in China indicates that successful economic transitions in the quasi-liberal economies did not witness gradual reform in the 1980s but rather incorporated many radically liberal components. In the 1990s, China also implemented massive privatization, which acted like shock therapy for many provinces and caused economic turbulence and long-lasting stagnation. Timing and sequencing might be more important than gradualism in explaining China's economic transitions. From a subnational perspective, the most successful four provinces implemented economic reforms in the right sequence and at the right time.

This study also highlights the importance of market-crafting in economic transitions and development. It aligns with the growing literature that emphasizes market economies cannot naturally emerge simply with the state's retreat from the economy. Market development should be viewed as a process of state-building, requiring active state involvement in developing and crafting rules and institutions. Therefore, when studying why some economic transitions were more successful than others, scholars must consider why some states were more successful in maneuvering this process and crafting economic institutions than others. In this way, the process of market development follows the general literature on institutional change that calls for bringing the state back into the analysis, in stead of solely focusing on geographical differences or external shocks.

This paper includes all eight coastal provinces in China, which serve as good counterfactuals when studying why some economies became quasi-liberal markets while others did not. These provinces are similar in two key ways but have distinct outcomes of interest. First, the coastal provinces are all well-endowed to be liberalized and integrated into global economies, compared to inland provinces. Additionally, these eight provinces enjoyed the same opening-up policies from the central government, as each had at least one city granted the status and respective policies of coastal open-up cities.

For each province, I study the macroeconomics of the whole province and their changes over time. Additionally, I narrow the focus to conduct city-level analyses to examine how economic transitions in key cities and their interactions within provincial-level politics shape the economic trajectories of the entire province. The local-central relations between provincial governments and central leadership in Beijing are also considered, as they have significantly influenced local politics and economic development.

Based on macroeconomic data, secondary literature, oral history, memoirs, archives, communist party histories, and interviews, I conduct a comparative historical analysis to understand why some provinces successfully developed quasi-liberal economies while others struggled with state-retreating economies. This paper focuses on a relatively short period of history compared to most comparative historical analyses. As shown in the figure below, the focus is on the policy choices made in the 1980s, the twenty-year self-reinforcing sequences that followed, and their legacies since 2014. However, the antecedent conditions date back to the 1912 revolution, considering economic development during both the Republican and Communist eras.