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Do Weberian Bureaucracies Lead to Markets or Vice Versa? A Coevolutionary Approach to Development

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Are Weberian bureaucracies a precondition for capitalist markets or is it the other way around? According to the developmental school, state bureaucracies organized along Weberian precepts is necessary for successful state-led growth. Yet some level of economic wealth also appears to be necessary for achieving such desirable institutions. Departing from conventional linear approaches to development, this essay develops and applies a coevolutionary approach that traces the mutual adaptation of bureaucracies and markets among local states in China. My analysis demonstrates that the particular features of bureaucracy that promote growth vary *over the course of development*, even among locales within a single country. More surprisingly, I find that the bureaucratic forms that initially sparked growth actually *defied* Weberian norms of technocratic specialization and impersonality. In other words, in rethinking the relationship between markets and institutions, we must distinguish between *market-building* and *market-preserving* institutions. Conventionally good institutions like Weberian bureaucracies are necessary to *preserve* markets after they have already emerged; however, it is the adaptive refashioning of preexisting “weak” institutions that *build* markets in the first place.

Scholars and policymakers have long agreed that the establishment of effective bureaucracies organized along Weberian precepts is a foundation of capitalist markets. This axiom is especially true among developmental states—late-developing economies that require strong, purposive state interventions to accelerate processes of economic catch-up (Gerschenkron, 1962). Yet the belief that Weberian bureaucracies are necessary for state-led growth begs the question of under what conditions and how such bureaucracies arise in the first place. Although effective state agencies seem indispensable for markets, economic growth also seems necessary for achieving these institutions.

Do Weberian bureaucracies lead to capitalist markets or is it the other way around? More broadly posed, which comes first in development—state capacity or economic growth? Existing responses may be divided into three groups.

The developmental state school argues that it is the decisive establishment of Weberian bureaucracies that preceded and paved the way for developmental success (Woo-Cumings, 1999). According to Weber (1968), the type of bureaucracy that complements market capitalism must possess certain legal-rational attributes: separation of public office from private gains, eradication of corruption, functional specialization, reliance on technical expertise, meritocratic recruitment, to name a few. Qualitative studies of the East Asian miracle economies, including Japan (Johnson, 1982), South Korea (Amsden, 1989; Evans, 1995), Taiwan (Wade, 1990), and Singapore (Huff, 1995), all conclude that these governments were able to effectively promote the economy because they had first established professional civil services and eradicated petty corruption. Quantitative studies by Evans and Rauch (1999; 2000) further demonstrate that the degree of “Weberian-ness” and economic growth are positively correlated.

Another school, associated with modernization theory (Inglehart & Welzel, 2005), contends that Weberian bureaucracies—and market-supporting institutions in general—are a consequence of economic prosperity, rather than its precursor and cause. In a cross-national regression analysis of income per capita and the World Bank’s measure of “government effectiveness,” Kurtz and Schrank conclude: “there is far more reason to believe that growth and development spur improvements in governance than vice versa” (2007, 538). Pointedly, they question the developmental state literature: “The Kuomintang [the ruling party in Taiwan] ruled mainland China through a combination of cronyism, clientelism, and naked force until 1949. It is hard to imagine that these same political leaders created a ‘developmental state’ in Taiwan out of whole cloth a few short years thereafter” (2007, 541). On a similar chord, Goldsmith’s (2012) comparative case study of four countries suggests that civil service reforms were successfully enacted only after these countries had become sufficiently wealthy.

Yet a third body of literature agrees that Weberian bureaucracies are a prerequisite for developmental success but argues that the acquisition of such institutions is a function of unique historical experiences. Kohli (2004) brings attention to the role of colonial legacies, stressing that third world countries had different starting points when they embarked on state-led industrialization after WWII. Japan’s brutal but invested colonialization of South Korea laid the foundation of a modern bureaucracy,

which inadvertently empowered the South Korean government to pursue developmental goals in the 1970s. By contrast, Nigeria was “governed on the cheap” by the British; upon independence, it was barely a modern state and thus lacked the capacity to steer the economy. Importantly, Kohli’s study suggests that the success of the East Asian developmental states was exceptional. In his words, “Very few developing countries embarked on their quest for industrialization with such favorable conditions already in place” (2004, 103).¹

All three schools of thought are correct—but I argue that they are only *partially* correct. The developmental state school argues that Weberian bureaucracies lead to markets, but it is unable to account for the origins of effective and coherent bureaucracies. The modernization school argues that growth enables state capacity building, but it does not explain the sources of economic growth. The historical school points rightly to the colonial origins of differing starting points among late developers, but it leaves few indications as to how poor and weak states, lacking the right history, might ever escape the poverty trap.

Instead, I propose an alternative—coevolutionary—theory of the relationship between Weberian bureaucracies and capitalist markets. As Weber underscores in *Economy and Society*, development is by nature multi-faceted change, entailing not only the rise of industries and markets, but also a radical remaking of society, administration, and politics. As Weber famously states, “Capitalism and bureaucracy have found each other and belong intimately together” (1968, 1465). And he emphasizes, “This condition is everywhere the product of a long development” (1968, 957). In other words, development is coevolutionary. States and markets adapt to each other and evolve together over time. Our conventional focus on positing linear causal relations between dependent and independent variables (i.e., either state capacity causes economic growth or vice versa) has obscured the obvious interdependence between growth and governance.²

Although the idea of “things changing reciprocally” (coevolve) is quite intuitive, the task of systematically documenting the processes of coevolution among many interacting parts is far from easy. The first-order challenge of studying the endogenous relationship between economy and bureaucracy is methodological. Hence, one objective of this essay is to outline an analytic template for mapping the steps of coevolutionary paths.

After introducing this template, I will demonstrate its explanatory utility by applying it to analyze the mutual emergence of professional bureaucracies and state-led industrial growth among local governments in China. Reform-era China presents an exceptionally instructive case because within the span of a single generation, China has undergone remarkable economic and bureaucratic transformation, surpassing even the East Asian Tigers in speed and in magnitude (Brandt & Rawski, 2008, 1). I focus on the

¹ On similar arguments about the long-lasting effects of colonialism on present-day development outcomes, see (Acemoglu & Robinson, 2012; Handley, 2008; Lange, Mahoney, & vom Hau, 2006).

² As Przeworski concludes in a sweeping review of the literature on institutions, “In the end, the motor of history is endogeneity. From some initial circumstances and under some invariant conditions, wealth, its distribution, and the institutions that allocate factors and distribute incomes are *mutually interdependent* and *evolve together*” (2004, pp. 185, emphasis added).

local level because although China is a single-party authoritarian regime, it is also highly decentralized, both economically and administratively (Landry, 2008). Indeed, Oi has characterized China as “a qualitatively new variety of developmental state,” with “local governments in the lead role” (Oi, 1995, 1113; 1999, 3).³ Then, within a city, I narrow in on how bureaucratic strategies of investment recruitment (i.e., attracting businesses to invest locally), a central task of any developmental state, impacted and was in turn impacted by the rise of markets.

By mapping the process of coevolution between bureaucracies and markets, I arrive at a core conclusion that integrates and yet departs from conventional wisdoms: the types of state capacity for growth promotion vary *over the course of development*, not only among countries but also among locales within a single country. Even more surprisingly, I find that the bureaucratic forms that initially sparked growth *defied* Weberian norms of “good” bureaucracies, including technocratic specialization and impersonality. In other words, it is the adaptive refashioning of preexisting “weak” institutions that first *built* markets. Weberian bureaucracies serve to *preserve* markets.⁴

My conclusion extends on this volume’s efforts to disaggregate the concept of state capacity. As the editors emphasize, “state capacity is not necessarily fungible across issue areas” (Introduction, 4), which means, for example, that state capacity in stimulating the economy may not translate into state capacity in promoting social inclusion or environmental conservation. They also sharply note that state capacity is not “a single quality that is absent or present in differing degrees;” instead, it is better understood as “a constellation of organizational qualities” (Introduction, 29).

Joining the editors’ emphasis on the non-fungible quality of state capacity, I go further to add a *temporal* dimension to the argument: state capacity varies not only by policy areas but also by stages of development. While the idea that state capabilities may vary at early and late growth stages has been earlier raised by others (Chang, 2002; Doner, 2009; Rodrik, 2007), I take on a crucial task underscored by the editors of explaining “*why* state capacity is not fungible” across stages of development (Introduction, 4). My short answer is that the *goals*, *constraints*, and *resources* of development are very different at market-building and market-preserving phases; therefore, the particular bureaucratic structures that *fit* these varying contexts are also different. One implication of my argument is that Weberian bureaucratic traits are not in fact universally best. Weberian traits fit modern capitalist markets, provided that such markets are *already* in place. But the bureaucracy that can effectively spur markets when none yet exists, as we’ll see, actually functions and looks different from the modern species.

³ Discussions of the developmental quality of China’s local governments abound. For more examples, see (Blecher & Shue, 2001; Walder, 1995; Whiting, 2001).

⁴ Dominant theories in political economy that posit “good” institutions (private property rights protection paired with limited government) as necessary for growth refers, as Weingast terms, to “market-preserving institutions” (North & Weingast, 1989; Weingast, 1995). The term itself indicates that these are institutions that *preserve* markets, a problem that applies to *already* developed economies. For developing countries, however, the relevant concern is how to *build* markets—there is nothing to preserve if markets have yet been built.

The Building Blocks of a Coevolutionary Framework

To study development—both market and state changes—as a coevolutionary process, the first order of business is to define “coevolution” and its association term “adaptation.” The words “evolve” (or coevolve) and “adapt” are commonly used by social scientists in reference to change but seldom defined. As John Holland, a leading theorist of complex adaptive systems, defines, adaptation is the process by which an agent “fits itself to the environment” (1996, 9). This process of “fitting” entails four distinct mechanisms, including *variation* (generating alternatives), *selection* (choosing among and recombining available alternatives to form new permutations), *retention* (keeping the selections or abandoning them for new selections at later periods), and *niche creation* (developing a unique role and resource space in relation to other units within a collective). As Lustick states, evolution should not be “confused with development, progress, gradualism, or, indeed, any kind of change” (2011, 3). This is because coevolution is a particular type of change involving adaptation among two or more parts of a system.

To sharpen the distinctive features of coevolution vis-à-vis other types of institutional change featured in the literature, consider the analogy of three ways in which a tree can change. First, a tree is struck by lightning and falls to the ground. In this instance, change happens through an exogenous shock. In this view of change, wars and colonial conquests are viewed as shocks that abruptly disrupted existing structures, replacing them with new ones (for example, see Acemoglu & Robinson, 2012; Kohli, 2004). These newly imposed structures, it is held, would self-reinforce and remain in place under another shock hits. Krasner (1988) labels this type of change “punctuated equilibrium.”

In a second scenario, a tree is eaten by termites and disintegrates months later. This time, change happens through gradual processes, but it does not involve adaptation between the tree and the termites. The seminal work of Thelen and her collaborators on “institutional evolution” and “gradual institutional change” studies how institutions may change even in the absence of exogenous shocks (Mahoney & Thelen, 2010; Streeck & Thelen, 2005; Thelen, 2004). They bring attention to “gradual types of change” like layering (adding a new feature to an existing institution) and conversion (changing the use of existing features). However, it must be emphasized that gradual change *does not* equate adaptation or evolution. For instance, aging is a gradual form of change. As one ages, wrinkles are added in layering process until a ruddy face slowly but steadily turns wizened. But aging, as we know, does not result from our efforts to adapt to the environment; if anything, it is the other way around: we are forced to adapt the inevitable process of aging. Coevolution is more than just a process of incremental changes—it is an adaptive process that involves learning and mutual feedbacks.

Finally, in a third scenario, picture the acacia tree, which features many spikes on its branches. The acacia tree evolved spikes to keep herbivores from over-eating its leaves. In turn, herbivores adapted to the tree’s defensive mechanism by evolving spike-resistant traits (for example, giraffes evolved extra thick tongues). The animals that evolve the strongest resistance to spikes will subsequently colonize the acacia trees. To

survive, other animals will have to develop other resources spaces or niches within the ecology where they can exercise a competitive edge. This third scenario illustrates coevolution.

The property of mutual adaptation over time in the process of coevolution requires that we specify systematic steps to collect data for and to map this particular form of change. Below I outline an analytic template consisting of four steps.

Four Steps of Mapping Coevolution

Figure 1 summarizes the four basic steps of mapping coevolutionary paths of mutual feedbacks. Step 1 involves identifying two or more domains of significance (D_1 and D_2). Domains could be populations or spheres of activities. In the case I will later present, I focus on the domains of economy (size and structure of industrial markets) and bureaucracy (mode of investment promotion).

Step 2 is to identify the relevant time period and significance junctures of change (T_1 to T_4). In the case of reform-era China, the relevant time period starts from 1978 (beginning of market reforms) or 1993 (beginning of an expanded phase of reforms) to the current period.

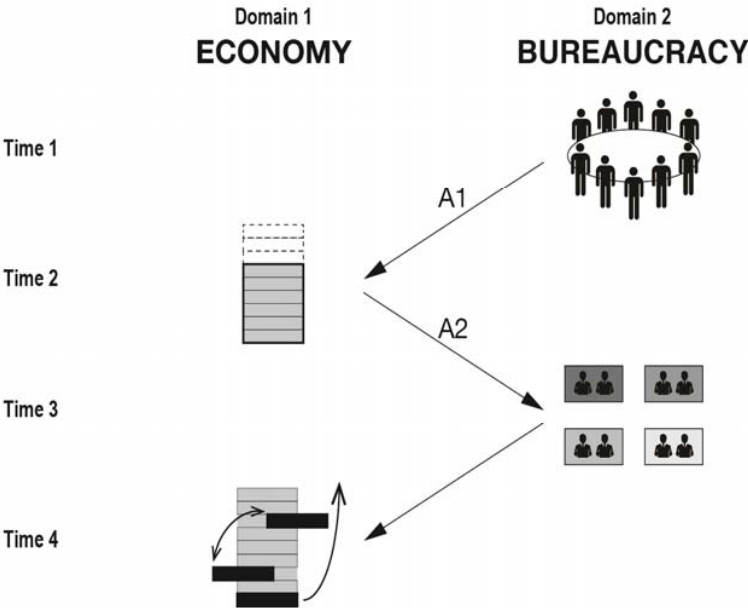
Step 3 is to identify dominant traits in each domain in each significant period. In the coevolution of bureaucracies and markets, the most salient institutional changes are likely to be *qualitative* (or structural) in nature, rather than quantitative. Growth as measured by GDP per capita is a quantitative change. However, even in the economy, significant changes are often qualitative in nature, which may not be easily quantified or even meaningful to reduce to a numerical scale. For example, in *Varieties of Capitalism*, Hall and Soskice (2001) draw a distinction between liberal and coordinated market economies. If a country evolves from one capitalist model to another over time, its GDP figures may not change, but its structural patterns would have been profoundly altered. This is why I illustrate institutional changes in Figure 1 as patterns, rather than as numbers.

As Pierson points out, “Contemporary social scientists typically take a ‘snapshot’ view of political life” (Pierson, 2004, 2). Normally, when studying China or locales within China, observers are inclined to document and draw conclusions from the most recent problems and phenomenon. Understandably, given how quickly changes unravel in China, keeping up with the most current developments is already a challenging and rich exercise. However, snapshots provide only a temporally limited view of the long-term historical process. When present outcomes are studied in isolation from earlier periods, snapshots may even lead to erroneous conclusions, such as the belief that good institutions observed alongside capitalist wealth had preceded and caused such wealth.

Hence, if our objectives are to understand how a currently observed status quo emerged and evolved over time, we will need a different approach to data collection. Instead of studying a given set of issues only in their present state, I choose to investigate the same issues over multiple periods back in time. The product of this effort may be likened to a panel dataset (multiple attributes observed over multiple time periods and repeated across units). When implemented in the field, collecting a panel dataset requires, on my part, locating and interviewing local actors who have been in office for a

sufficiently long period of time to have witnessed change since the 1980s. Oral histories conducted with these actors are supplemented with archival materials and secondary literature.⁵

Figure 1: Four Steps of Mapping Coevolutionary Paths



Step 4, after collecting the panel dataset, is to trace the mechanism of mutual influence between changes observed in each domain. Concretely, this means to locate the direction of influence of one domain on the other at a given juncture (A_1), with attention to whether the affected domain feeds back to its original source of change at a later period (A_2). I further consider whether causal influence (A_1 , A_2) is exercised through the mechanisms of variation (generating new options for agents), selection (shaping incentives to select certain traits over others), or retention (reinforcing or eroding previous selections).

Figure 1 is, of course, a stylization of my framework. In messy social worlds, there will be numerous instances where observed patterns do not conform neatly to a zigzag coevolutionary pattern.⁶ For example, coevolutionary processes may be interjected by exogenous shocks (Krasner, 1988). Despite these real-world complications, the

⁵ The empirical material in this chapter is drawn from my forthcoming book, *How China Escaped the Poverty Trap*. A detailed discussion of my interviewing procedures, the coverage of interviews, and citation protocol is provided in the methodological appendix at the end of the book.

⁶ The zig-zag pattern reflects an “ideal” reciprocal pattern of coevolution. In reality, coevolutionary paths often run in multiple directions: reciprocal, simultaneous, and lagged (Lewin & Volberda, 2003, p. 584).

procedures outlined can help guide our investigations into *when*, *how*, and *why* particular dimensions of the state and the economy mutually adapt and transform together.

Applying a Coevolutionary Approach to Local China

Having spelled out the essential steps of a coevolutionary framework, I will now demonstrate its application by zooming in on the paths of different locations within China. Before introducing the protagonists, a briefing of China's administrative structure is in order. China is a unitary political system, but administratively and financially, it is one of the world's most decentralized administrations (Landry, 2008; OECD, 2006). Operating as a nested hierarchy, there are five levels of government: center, provinces (31), cities (over 600), counties (about 2,500), and townships (about 45,000) (Lieberthal, 1995). Sub-provincial governments are responsible for funding and delivering essential public services, including education, health, public safety, pensions, and urban infrastructure (OECD, 2006). County governments account for half of China's GDP production and one third of public employment (Ang, 2012b; Kung & Chen, 2012).

Decentralization has been a key feature of China's reform strategy. Economists have characterized China as an "M-form" hierarchy, wherein each locale operates like a self-sufficient and autonomous unit (Donnithorne, 1972; Qian & Xu, 1993). For instance, cities and counties can have tremendous autonomy in shaping and implementing their own economic and institutional plans, ranging from the choice to cultivate particular industries, design incentive packages for investors, introduce cadre bonus schemes, to the allocation and spending of retained tax revenue. However, local autonomy is constrained within broad policy parameters laid out by the central and provincial governments.⁷

Thus, I characterize central-local state agency in the Chinese political system as a relationship of "directed improvisation." The central government directs by authorizing and yet delimiting the boundaries of localization through nationally issued mandates (Ang, Forthcoming, Chap 3), but it is the local governments at all levels, reaching down to the grassroots, who improvise solutions to locally-specific and ever-evolving problems. Central authorities do not dictate to localities exactly how they should respond to contingencies at every juncture—such a task is beyond the knowledge and reach of central planners. Within each locality, the party-state is made up of a thin silver of elite decision-makers (primarily the party secretary, the state chief, and members of the party committee) and a large bureaucracy consisting of party and state organs and their subsidiary organizations. Counties are staffed on average by about 20,000 party-state employees.

Given heterogeneous local conditions and extensive decentralization, it is no surprise to find a whole variety of sub-national political economies within China. Some localities are rich and developmental but others poor and predatory (Baum &

⁷ For example, after the 1994 tax-sharing reform, local governments were given the autonomy to generate revenue by leasing land. But they had to do so within restrictions set by the central government, which, in this case, were quotas imposed on the amount of agricultural land that can be converted for urban use.

Shevchenko, 1999). Geography is a prominent driver of regional divisions. Much of China's prosperity and modernization is concentrated on the coast, provinces like Guangdong, Fujian, and Zhejiang. These regions command ready access to export markets, long entrepreneurial histories stretching back to imperial times, and ties to the overseas Chinese diaspora (Rawski, 2011; Ye, 2014). The Western provinces, such as Tibet, Qinghai, and Yunnan, are typically the most remote and impoverished. However, because of their hinterland geography (as in the case of Tibet and Xinjiang) and presence of restive minority populations, these provinces tend to receive more fiscal transfers and preferential policies from the central authorities (Ang, 2012a; Wang, 2004). It is the central provinces, including Hubei and Jiangxi, who are "caught in an awkward position" of being "neither eastern nor western" (*Xinhua*, July 2, 2009). As a result, many locales in the central region actually enjoy less aid and fewer opportunities than those in the far west.

Regional disparities do not end at provincial borders. Measured in terms of population, some provinces in China are the size of countries. Shandong, one of China's largest provinces, has a population of 91 million, larger than the United Kingdom's. Thus, as Kellee Tsai observes, "Within a single province, evidence can be mustered for market-preserving federalism, local state corporatism, and even klepto-patrimonialism" (2004, p. 18).

The years of 1978 and 1993 marked two watershed events on the national reform timeline. In December of 1978, the central leadership headed by Deng Xiaoping announced the decision to "reform and open." This decision unleashed a wave of agricultural, enterprise, fiscal, and administrative reforms throughout the country. However, the early period of reform in the 1980s introduced only partial market reforms (Naughton, 1995). So, for example, pricing remained partially state-controlled; there were many restrictions on foreign investments; and private entrepreneurship was not officially endorsed. Then, in 1993, the central leadership made a monumental decision to shift gears from partial to full-fledged market reforms, encapsulated in the vision of building a "socialist market economy" (Qian & Wu, 2003). For local governments, the 1993 central decision opened the doors to capitalism firmly and widely. Foreign investments and private entrepreneurship were permitted and encouraged, which soon replaced the earlier boom of township and village enterprises as the engine of industrial growth. Hence, in my analyses, the story of full-fledged capitalist reforms begins from 1993.

Let me first introduce the three local cases I will later discuss. Note that my coevolutionary analysis will focus mainly on the first case, but I wish to bring in two other cases as points of comparison. Also, for the purpose of illustration within the limited space of this essay, my later discussion will center only on investment recruitment and the rise of industrial markets. There are good reasons to focus on these two dimensions. Among low-income countries, the conversion from agriculture to industry is a main avenue of economic growth and modernization. And in any developmental state seeking to industrialize rapidly, prospecting foreign investors and capital is a foremost task. Normally, we expect that the work of designing and executing investment policies should be assigned to well-educated technocrats with economic

expertise. This is why the Singapore government delegated investment promotion to the Economic Development Board (EDB), which is a star agency of the city-state. And in South Korea, the equivalent body is the KOTRA (Korea Trade-Investment Promotion Agency).

Investment recruitment is, of course, only one dimension of the larger developmental enterprise. For now, I will explore only this dimension, and to highlight the patterns of mutual feedbacks, I will also deliberately stylize the discussion, omitting many details along the way. Detailed accounts of the coevolution among markets, property rights structure, developmental strategies, and the dominant mode of corruption across locales in China are contained in my book (Ang, Forthcoming).

1. *Forest Hill City, Fujian province (coastal)*

Fujian is a coastal province that lies across the strait from Taiwan. Forest Hill is a city located in the interior of Fujian, with a population of about 2.5 million residents. I use Forest Hill as my main illustrating case because this city features a combination of growth opportunities (location in a coastal province and possession of abundant natural resources, including coal, wood, and minerals) and constraints (it does not lie directly on the coast and is surrounded by hills). Thus, the coevolutionary path in Forest Hill is neither too fast nor completely stagnant.

Cities are a level of government below the central level and the provinces. Each city has a few urban districts (*qu*) and suburban or rural counties (*xian*) under its jurisdiction, typically with the districts at the core and the counties fanning out into the periphery. My later description of Forest Hill applies to its core districts. Among the districts and counties of Forest Hill, we find different factor endowments (some are closer to the city center than others; some possess more natural resources than others), therefore, they display different directions and speeds of state-and-market coevolution.

2. *Blessed County, Hubei province (inland)*

Hubei province sits squarely in the center of China. Humble County has about 600,000 residents. Although Humble County is a landlocked county, it has the advantage of being located about an hour's ride from the provincial capital of Wuhan. Like Forest Hill, it also enjoys some access to natural resources, primarily wood and stone. But Humble is one among over 100 counties in Hubei, largely unheard of outside of its province and geographically distant from the coast and other major cities.

3. *Upstart County, Jiangxi province (inland)*

Jiangxi is nestled between the coastal provinces of Fujian and Zhejiang and the central provinces of Hubei and Hunan. In terms of GDP per capita, it is among the poorest in the country, ranked 25th out of 31 provinces in 2012. Like Humble County, Upstart County is a landlocked locale in a central region and is even more rural than Humble County.

What will we find if we take only a snapshot view of the three locations in the present period? Table 1 summarizes my observations. As the statistics of Forest Hill City are not comparable with the counties, I list the value of fixed asset investment in an urban district of Forest Hill (equivalent to a county in size and administrative status), Humble County, and Upstart County in 2014 below. In terms of investment value, the district in Forest Hill clearly surpasses the other two cases by almost an entire magnitude. Looking at the mode of investment promotion today, we find that the district in Forest Hill approximates the Weberian-developmental model. In this locale, investment promotion is delegated to a team of specialized economic agencies whose priority, as one city official described, is to “guide and regulate investments” (B2013-325). However, turning to the other two inland counties, we find the stark opposite of the Weberian model. Investment recruitment is conducted by agencies of all stripes within these counties—that is, it is *not* specialized. Even more anomalously, these agencies are deliberately asked *not* to conduct their duties in an impersonal manner, as Weberian norms dictate. A bureaucrat from the Economic and Information Office of Humble County described, “One of our common methods of investment recruitment is termed ‘using kinship and affective ties to recruit investments’ (*qinqing zhaoshang*), which means mobilizing the personal connections of local officials to secure investors” (B2015-373).

Table 1: Comparing the Present Snapshot in Three Locations

	Value of fixed asset investment in 2014	Practice of Investment Promotion in 2014
Urban District within Forest Hill City	36 Billion Yuan	Delegated to specialized economic agencies whose focus is on “guiding and regulating investments”
Humble County	19 Billion Yuan	All county agencies, regardless of nominal functions, are enlisted to recruit investors using their personal connections
Upstart County	17 Billion Yuan	Similar to Humble County; described as en masse, personalized investment promotion for short

The current practices in the Humble County and Upstart County are clearly in violation of Weberian precepts of professional bureaucracies, at least in terms of their lack of professionalization (each function is delegated to a specialized office) and impartiality (separation of public office from private affairs). Given that both of these counties receive much lower investment than the district in Forest Hill, one might thus conclude that Weberian norms are positively correlated with economic performance. And indeed, if it is possible to collect a large-n dataset that measures the value of

investments and codes the practices of investment promotion (note: these are *practices*, not openly stated policies), we will probably find statistical evidence for this cursory conclusion. One might further advance a casual argument that it is Weberian traits that lead to capitalist markets.

But what if instead of taking only a snapshot of the present, we also explore how investment promotion practices manifested and evolved at earlier times? This is the unique approach I took in my field research. Instead of investigating only present outcomes and practices across cases, I looked back in time at all of the cases. Table 2 summarizes the practices of investment promotion in 2000 and 2014. Surprisingly, when we compare two snapshots across the same three locations, we arrive at a different picture. It turns out that the district in Forest Hill did not launch market reforms with a Weberian bureaucracy—instead, it did *14 years ago* what the late-developing inland counties are doing *today*. We also learn that the late-developers tried or at least considered adopting en masse, personalized investment recruitment, but the method did not work back in 2000. This dormant system was only reactivated recently with some success.

Table 2: Comparing Two Snapshots in Three Locations

	Practice of Investment Promotion in 2000	Practice of Investment Promotion in 2014
Urban District within Forest Hill City	All county agencies, regardless of nominal functions, are enlisted to recruit investors using their personal	Delegated to specialized economic agencies whose focus is on “guiding and regulating investments”
Humble County	County officials hoped to attract investors, but it was “all talk and no action;” even when leaders tried, they failed to produce results.	All county agencies, regardless of nominal functions, are enlisted to recruit investors using their personal connections
Upstart County	Similar to Humble County	Similar to Humble County

These observations raise questions that we would completely miss had we not looked into the past. Why and how did the method of investment promotion in Forest Hill evolve from a distinctly non-Weberian mode to its current form? Why did en masse, personalized investment promotion not work in the inland counties before but was reactivated again today? To answer these questions, we must map change from a *coevolutionary*—rather than *linear*—perspective. We must also examine *connections* among regions with divergent starting points and outcomes, rather than only their *variation*.

The Coevolutionary Path of Forest Hill City

Since the beginning of market reforms, both the economy and bureaucracy in Forest Hill has undergone dramatic transformation. GDP per capita grew about thirty times in thirty years. In the 1970s, Forest Hill had a Maoist bureaucracy that was barred from contact with the outside world and from engaging in capitalism. Today, its bureaucracy actively counsels the city's champion enterprises to invest overseas and to build national brand-names. Over the years, the government of Forest Hill also mobilized capital and political support from higher-level governments to construct a network of railways that connected the otherwise hill-locked city to other major cities. Only thirty years ago, Forest Hill was a backward agrarian society, but today it is congested with factories, mega-malls, highways, and heavy traffic.

How did this great transformation come about? Following the developmental state literature, one would expect that the city had resolutely revamped its bureaucracy along Weberian precepts. Then, with a professional civil service in place, it introduced coherent developmental policies, which then led to rapid economic catch-up. Such a plan would have involved many concrete measures. Limited by space, we shall consider two basic measures here that were well-documented among the East Asian national developmental states (Amsden, 1989; Amsden & Chu, 2003; Evans, 1995; Johnson, 1982; Wade, 1990).

1. The city government would have created specialized elite economic agencies, equivalent to MITI in Japan and EDB in Singapore.
2. The city government would have offered market friendly services and incentives to attract investments in industries of comparative advantage.⁸

With these measures in place, as developmental states like South Korea and Singapore appeared to have accomplished intensively, the city should be ready for economic take-off.

That, however, was not the story of Forest Hill. Instead, the story unfolds in this three-step sequence: Exploit preexisting weak institutions to build markets → emerging markets stimulate strong institutions → strong institutions preserve markets. For lack of better term, I use “weak” institutions to encompass norms and practices that defy the formal, modern, and Weberian (“strong”) institutions found in advanced market economies.

Exploit Preexisting Weak Institutions to Build Markets

For most parts of China, the starting point of attracting external capital and investments was 1993. Although “reform and opening” was announced in 1978, the pre-1993 reforms proceeded with political caution. With the exception of a few special economic zones, localities were not allowed to openly embrace foreign investments. However, when the central leadership made the decision in 1993 to “build a socialist market economy,” that is, to deepen and expand capitalist reforms, locales were finally

⁸ Strategic efforts by state planners to craft “comparative advantages” (e.g. light manufacturing and electronics in Taiwan, heavy industries and ship-building in South Korea) were a key to developmental success (Woo-Cumings, 1999, p. 139).

given the green light to seek capital and businesses from beyond their city and even overseas.

How might the decision-makers of Forest Hill City (the leaders and the bureaucrats who counsel these leaders) adapt the bureaucracy to capitalize upon new economic opportunities? The decision-makers mulled over two options. The first option was to specialize. The city already had a preexisting formal bureaucratic apparatus with various agencies that were each assigned particular functions (e.g., Investment Bureau, Finance Bureau, Education Bureau, Department of Organization). It could charge the Investment Bureau with the sole responsibility of courting investors and then staff the agency with technocrats. Alternatively, it could mobilize all the agencies to court investors using each bureaucrat's personal connections. To execute this alternative, the city leadership could assign investment targets to all the agencies, requiring them to attract a stipulated value of investments each year. Attractive bonuses could be offered to those who exceed targets. I label this second option *en masse*, personalized investment promotion.

The *en masse*, personalized strategy presented drawbacks and even dangers. Close personal and kinship ties between investors and patron-bureaucrats would obviously breed corruption. From the perspective of local agencies, it would also create a conflict of interest between enforcing regulations and attracting investors. In addition, if all the agencies performed the same task, the type of investments attracted would likely be uncoordinated and low quality.

Yet in the 1990s, instead of establishing a Weberian investment agency, Forest Hill launched what was called “a beehive campaign”—the city enlisted all agencies to court investors, assigning them targets and bonuses. And instead of relying on a team of professionals, the city leadership urged all the cadres to mobilize their relatives, classmates, and friends to invest in Forest Hill. This selection defies the Weberian precepts of functional specialization and impersonality.

Given the obvious advantages of Weberian structures and the obvious problems of *en masse* investment courtship, why did the city select what appears to be an inferior option? Stated in evolutionary terms, the *success criteria* of the players involved shapes their selection. At an initial growth stage, the impoverished city was desperate for capital and investments of any kind. In the words of a veteran official, “In the past, the goal was to push for rapid economic growth, so we welcomed any investor” (B2013-325). Selections were also influenced by the constraints and resources at hand. In the 1990s, the city could not feasibly secure experts to staff a professional agency (bear in mind that this is only a third-tier city, which until today struggles to attract talents). Realistically as well, it could not fire anyone from the cadre corps it inherited from the Maoist era.

Yet although the Forest Hill government was numerously constrained during the early 1990s, it possessed certain unique resources. The preexisting Maoist apparatus was especially adept at campaign-style policy enforcement, that is, to channel manpower and resources toward narrow state-selected goals, paired with aggressive target-setting and mass propaganda. This is a mode of policy implementation that Perry (2011) aptly describes as “convulsive.” It can be very destructive when put to the wrong ends, as Mao did during the terrible famine of the Great Leap Forward. However, in the reform era, it

may be reconstituted for the capitalist goal of investment recruitment. Commenting on the power of campaigns, one Forest Hill official said, “I feel that our system has a distinct advantage: it can get things done quickly and achieve great results” (B2013-323).

Another advantage unique to a pre-industrialized economy like Forest Hill is the affective strength of personal ties. On this point, the observations of Fei Xiaotong, an eminent Chinese sociologist, are instructive. As Fei observes, “Modern society is composed of strangers” (1992, 42). When strangers relate to one another, they need written rules and laws. However, the Chinese society, as Fei underscores, is primarily agrarian (according to the National Statistics Bureau, urban population exceeded rural dwellers for the first time in Chinese history in 2012). Traditionally, Chinese society is a society without strangers—indeed, the term “a society of familiars” (*shuren shehui*) continues to be used in China. Among familiars, trust is strong, perhaps even stronger than laws.

As Fei admonishes, such strong bonds of personal trust among rural people starts to erode or become misused when strangers enter the context. He writes, “These methods cannot be used with a stranger. China is undergoing a rapid transformation that is changing a fundamentally rural society into a modern one. The way of life that has been cultivated in rural society is now giving rise to abuses” (1992, 44). This quote suggests that we conventionally view personal connections, patronage, and patrimonialism negatively not because these features are inherently bad, but because they present a poor fit with modern societies peopled with strangers. However, in the early 1990s, when Forest Hill had yet to industrialize and urbanize, personal connections were a vital resource for growth promotion. By enlisting local cadres to recruit their family and friends as investors, bonds of kinship substituted for formal property rights protection.

Paired with en masse bureaucratic participation in courting investors was what I call “give-away” policies. Instead of cultivating industries of comparative advantage, city officials gave away attractions like cheap land, tax breaks, subsidized electricity, and lax regulation indiscriminately to all investors. This prevailed because Forest Hill in the 1990s was like a start-up company, desperate for any client. Moreover, the idea of selective development had not even occurred to the city officials; markets alone were a novelty. Taken together, Forest Hill’s development strategies in the 1990s went against received wisdom of what governments are supposed to do to promote investments and growth.

When the particular constraints (lack of technocratic staff) and resources (campaign-style mobilization and strong personal connections) of the environment in Forest Hill in the early 1990s are taken into account, a Weberian model would *not* actually fit best with the situation. When the goal of development was to seek quantity—rather than quality—growth, en masse investment promotion was actually a more fitting choice. Different from other aid-dependent third world nations, local officials in China were not told by foreign consultants and aid agencies that they must abide by best practices found in the developed world. Instead, they chose to do they thought fitted their situations. They probably did not know or care whether their choices defied best practices.

Emerging Markets Stimulate Strong Institutions

Forest Hill's aggressive investment campaign worked, conditional upon its proximity to the coast, with access to investors from Taiwan, and possession of abundant natural resources. In 1996, the city's GDP per capita was over 5,000 Yuan; five years later, it jumped to 8,000 Yuan. Although GDP growth was rave news, the city confronted a novel contingency: the industrial market was a mess. As all the bureaucrats had participated in wooing investors, all sorts of investment arrived, many of which were clearly incompatible with one another. One official recalled the situation: "Back then, our commercial parks had no plan. A tofu factory set beside another factory making fiberboards. How was that going to work?" (B2013-324). During the 1990s, the city had several toy factories in operation. However, as these factories lacked auxiliary producers (such as makers of plastic parts and packaging), they were unable to sustain production.

Entering into the 2000s, the city accumulated more industries and a larger tax base. At the same time, its pool of natural resources was shrinking; land was becoming scarcer; forests were being depleted. The costs of environmental damage built up. Further, as the quote above suggests, the city's officials learned from the failures of previously indiscriminate and uncoordinated industrial plans. So now that the city was no longer hungry, and hence pickier, concerns of long-term sustainability and comparative advantages being to enter the minds of policymakers.

From 2001-2005, the city underwent a major industrial restructuring effort. The city closed small factories in wood and paper production and inefficient small mines. State-owned cement factories were merged and restructured, so that they could manage larger projects that tapped on economies of scale. Two enterprises, specializing in mining, metal refining, and machinery production, emerged triumphant from an earlier period of chaotic markets and intensive competition. They would soon become the twin pillars of the local economy, around which state planners would select and build the city's comparative advantages. As the economic focus shifted from quantity to quality investments, the type of developmental policies turned from give-away to selective. In the words of one veteran bureaucrat, "We went through a process from *attracting* capital and investments to *selecting* capital and investments" (B2013-325). Benefits became targeted at investors in priority industries, and low-end polluting enterprises were gradually phased out. Meanwhile, a targeted developmental strategy requires specialization and coordination on the part of bureaucracy. Thus, as policies evolved toward selectivity, the beehive campaign was dismantled and replaced with Weberian traits.⁹

Strong Institutions Preserve Markets

Today, the agencies of Forest Hill no longer have mandatory investment targets or bonuses. Rather, investment work is delegated to a team of specialized economic agencies, whose function, as earlier mentioned, is to "guide and regulate investments"

⁹ Importantly, this does not mean that corruption was eradicated among local governments. Far from that, the dominant mode of corruption evolved, becoming more sophisticated and concentrated among the top elites, even as the administration progressively Weberianized. This process in China closely parallels the evolution of America's political economy during the Gilded Age (Ang, Forthcoming, Chapter 1 and 5).

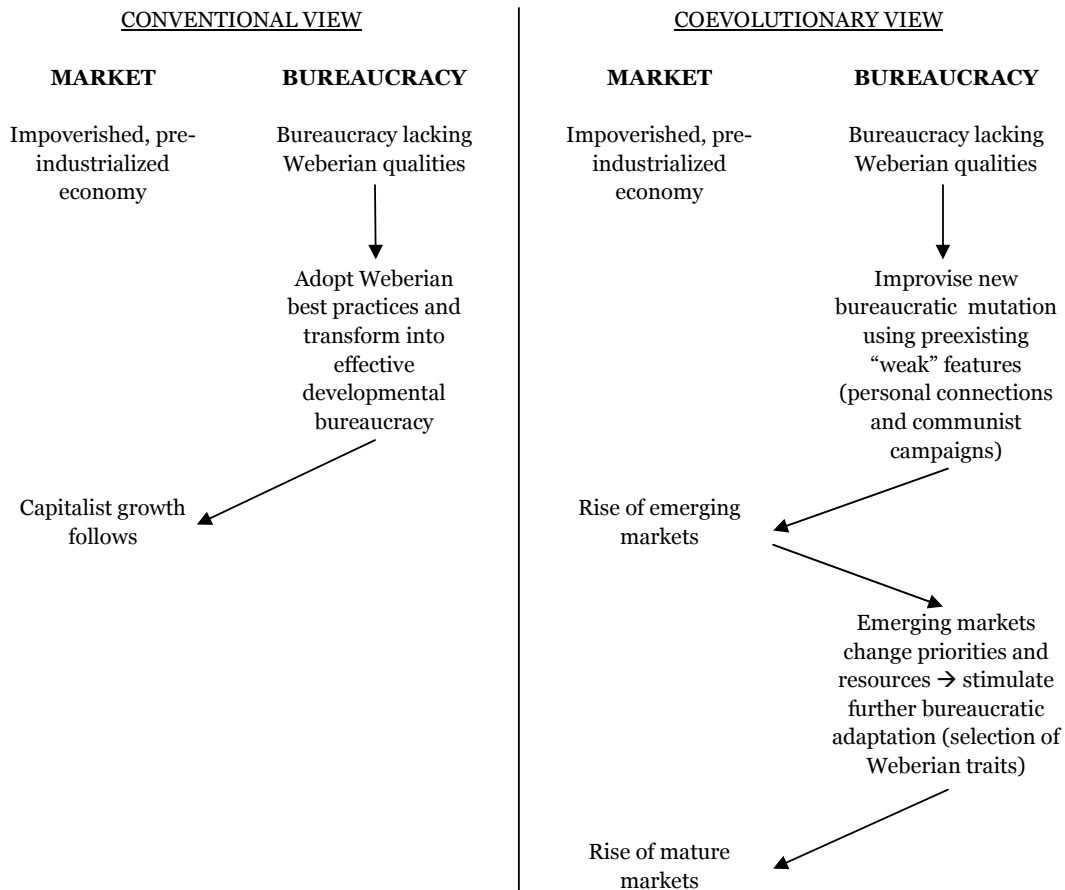
(B2013-325). By successfully sparking a nascent market, the initial bureaucratic strategies of en masse, personalized investment recruitment laid the seeds of its own demise.

This reformed bureaucracy provided a supporting basis for the city's new development priority: to restructure the economy and cultivate targeted industries. By 2006, GDP per capita had doubled compared to only five years ago. Beyond the overall size of the economy, the industrial composition had also changed. The share of GDP produced by the city's four major industries almost doubled within a five-year period since 2001. It took twenty years, well into the late 2000s, before Forest Hill showed some semblance of the East Asian developmental model, featuring specialized agencies and a selective growth strategy of "picking winners" (Evans, 1995). Bureaucratic professionalization and selective developmental policies emerged together with—rather than preceded and caused—economic growth and restructuring. What first attracted capital and built markets was an adapted structure of bureaucracy that *defied* Weberian norms.

To be clear, the story of Forest Hill's development is far from over. Officials in Forest Hill emphatically agreed that their city had only reached a "launching stage." Although the city has escaped absolute poverty and approximated middle-income status, their list of worries about the future ran long: exhaustion of natural resources, severe environmental pollution, vulnerability to global economic shocks, low technological content of local products, lack of skilled professionals, and so on. The challenges facing Forest Hill are broadly symptomatic of the challenge of escaping the "middle-income trap," of which the Chinese leadership is acutely aware (World Bank & State Council, 2013).

Figure 2 summarizes and contrasts the conventional linear logic of development with my coevolutionary account. The particulars of any coevolutionary narrative will, of course, vary across contexts. Readers are advised not to fixate on whether particular measures adopted in Forest Hill can be replicated in other countries (even other locales in China cannot replicate the same measures at the same time). What is generalizable, instead, is the sequence of coevolutionary steps. As Figure 2 illustrates, bureaucracy does not come in two dichotomous choices: either Weberian or non-Weberian (or sometimes referred to as patrimonial). Rather, between them, there can be many intermediate permutations adapted from preexisting socio-political features—improvising such institutions is the first step toward building markets. Also, markets are not a binary variable: either you have them or you don't. We should at least draw a basic distinction between *emerging* and *mature* markets. Emerging markets are fledging, promising, but also typically chaotic (think tofu factory beside fiberboard maker). Conventionally good institutions like Weberian bureaucracy complement and preserve mature capitalist markets. The making of emerging markets, however, calls for drastically different stimulus.

Figure 2: Comparing Conventional vs. Coevolutionary View of Development



The Paths of Other Late Local Developers

The experience of Forest Hill is only one among numerous other sub-national paths within China. Facing a mixture of growth endowments (located in coastal province with abundant natural resources) and constraints (hill-locked), Forest Hill's transformation is less speedy and dramatic than metropolises like Shanghai or cities located directly on the coast. What were the paths of locales in the central regions like?

For decades since market reforms began, Humble County was poor. In self-deprecating humor, one cadre remarked that the county's financial situation was worse than "eating [rice] budgets," a term referring to poor counties that exhaust budgets on feeding the bureaucracy. He said it was more like "eating [thin gruel] budgets," meaning the county had little to spare even for the most basic needs (B2013-329). Although the economy had grown and public finances improved over the past few years, budgets

remained tight in Humble County. Many agencies still lacked adequate funding and salaries.

What did the trajectory in Humble County look like in the 1990s through the 2000s? Did it not try the adaptive strategies used in Forest Hill City during its early growth stage? Actually, some officials of Humble County did try (or at least considered trying). But stuck inland, their attempts did not produce a miracle. During the 1980s, like other localities throughout the country, Humble County had set up township and village enterprises (TVEs). But with limited access to networks, investors, and clients, the TVEs performed poorly, and many ended deep in debt. Then, in the 1990s and early 2000s, the county heeded the call of central initiatives to restructure state-owned enterprises (SOEs) and court investments. But the efforts in Humble were largely superficial. Restructured SOEs and TVEs did not turn into vibrant private enterprises, as did places like Zhejiang province. In addition, efforts to court investors at that time were futile, “more talk than action” (B2013-329), because “people didn’t even know about this place” (B2013-331). Compared to Forest Hill, not much changed in Humble County during the decade after 1993. Bureaucracies and markets did not co-evolve with transformative results.

The big break for Humble County and also for Upstart County, both inland locales in central China, arrived around 2005. The important question is: What was the source of this big break? Why was it not available earlier? This new lease of economic life for the central regions *came from the coast*, from cities like Forest Hill. Once coastal locales reach middle-income status, they were pressured by rising factor costs at home to replace lower-end manufacturing with higher-end activities. Factories on the coast went spontaneously in search of investment locations in China’s own neglected backyard. This phenomenon is termed “industrial relocation.” One might also think of it as a *domestic* version of the flying geese theory; coastal regions led the process of economic and institutional coevolution and then later on brought opportunities to the inland laggards.

When new opportunities arrived from the coast in the mid-2000s, a dormant engine roared into action. And what type of bureaucracy and policy did Humble and Upstart adopt? Almost the same ones as Forest Hill did over a decade ago, a mixture of en masse investment promotion with give-away developmental policies. Uncannily, the prevailing practices in Humble County shadowed practices that had recently been phased out in Forest Hill. One official from Humble County described: “Assigning investment tasks to all the departments can incentivize everyone to act together, fully utilizing everyone’s networks and resources. We are now in the midst of an all-county campaign to promote investment. Our county is a small place, with no particular advantages in location or transportation. How are we going to develop economically if we don’t pursue investments in en masse? Anyway, the whole country is doing this” (B2013-318).

Yet even though we observe some striking similarities between the current adaptive strategies of less-endowed regions and the past strategies of more-endowed ones, the future path that will unravel in Humble County is unlikely to be a mere replication of their richer and more developmental cousins. That is because, as a sub-national late developer, Humble County presently operates in a macro environment that

is different from the one that coastal cities like Forest Hill encountered in the 1990s and 2000s. In recent years, the central government has articulated a different developmental role for local states, emphasizing social services provision and environmental protection over brute capital accumulation, in close approximation of what Evans calls the “twenty-first century developmental state” (Evans, 2011; Evans & Heller, 2013). Even at its current early growth stage, the officials of Humble County clearly expressed more concern about the environment costs of rapid industrialization than their peers in Forest Hill had.

Comparing the coevolutionary trajectories of the three locations, we learn that the economic effects of any strategy of institutional adaptation (such as the beehive campaign) are conditional upon basic endowments like location. This axiom applies to standard good institutions (such as the protection of private property rights) as well. Collier is worth quoting at length on this point: “Good governance and policy help a country to realize its opportunities but they cannot generate opportunities where none exist and they cannot defy gravity. Even the best governance and policies are not going to turn Malawi into a rich country—it just does not have the opportunities” (2007, 64).

However, I differ from Collier in one critical respect, that is, while growth opportunities may be heavily influenced by geography, entrepreneurial histories, and natural resources, *they are not static*. As surrounding economies change, so too do the opportunities for nations and locales. Humble County and Upstart County used to be stuck; no matter how hard they tried, they could not attract investments as their coastal peers did in the 1990s. Yet unexpectedly, their opportunities emerged another decade later, after the economies of the first-movers had taken off. This suggests that while the economic effects of factor endowments cannot be ignored, their effects are not fixed or deterministic.

My approach of comparing local trajectories also suggests that we cannot study sub-national units (and indeed countries as well) as if they are independent units of observation—because clearly they are *interdependent* (on world politics, see also Katzenstein, 1975). The point of comparing sub-national units is not to generate more units of observation for testing or to pit them side-by-side as static regional models. What is of interest in sub-national comparison is not just “*variation* in economic outcomes” and how “local-level variables determine different local economic realities (Rithmire, 2014, 167), but also *connections* across regions and how each locale’s path *spills over* into the paths of other localities and collectively shapes China’s national outcomes.

Conclusion

Do Weberian bureaucracies lead to markets or vice versa? My answer is that it depends on the stage of development, within countries and even within locales of a single country. We must qualify both the functions and forms of bureaucracies at market-building and market-preserving phases of development. We must also distinguish between the pressures exerted on institutional change by emerging markets versus by mature markets. The type of bureaucracy and method of investment recruitment varies

for low-income compared to middle-income economies. Why? Because development priorities evolve as a society transitions from absolute poverty to moderate income. And because the constraints and resources of poor, rural, and communist settings are drastically different from those of moderately wealthy, urban, and capitalist systems. Particular organizational forms, rules, and policies work only when they fit the goals, constraints, and resources of particular environments. Even a Weberian bureaucratic structure—as universally desirable as it may initially seem—is not actually universally best.

To suggest that early development requires institutions different from those of late development is not new. In an incisive historical study, Chang (2002) argues that contrary to the norms of limited government that are commonly prescribed to developing countries today, wealthy Western nations had actually deployed interventionist policies to kick-start their domestic industries when they themselves were developing. Likewise, Rodrik asserts that “igniting economic growth and sustaining it are somewhat different enterprises” (2007, 16). Doner’s (2009) study also demonstrates that while Thailand had developed the right state capabilities to support early industrialization, it failed to continue evolving its political institutions for technological upgrading.

My chapter clearly extends on these themes, but I seek to go beyond them in one key respect. I emphasize that the first step of development entails “exploiting preexisting weak institutions to build markets.” Poor societies almost always begin with an abundance of weak institutions, such as informal and personal connections, communal and tribal affiliations, patrimonialism, weak enforcement of formal rules, and so on. Normally, such features are viewed as impediments to economic development that need to be removed before markets can grow. I argue the opposite: what we normally perceive as weak institutions are actually the raw material that we have to improvise upon in order to spark emerging markets. But unless we drop our perceptions that only certain particular organizational forms are good and others are inferior, we cannot imagine and register, much less harness, the developmental potential of apparently weak institutions.

The recognition that state capacity varies at different stages of development—that is, at different levels of income, industrialization, and modernization—is especially significant for developing countries. As the editors underscore in the Introduction, “Most developing countries are struggling to move beyond the dichotomous choice posed by ‘Washington Consensus’ versus ‘developmental states’” (footnote 11, 20). The Washington Consensus is a theory for advanced capitalist economies in the West. The developmental state model is a theory for a select group of countries in Asia endowed with unique historical conditions and exceptionally strong bureaucracies. Neither set of conditions applies to much of the developing world, which is poor and yet modernized. For these societies, we need to explore how development may occur not because of strong institutions, not even *in spite of* weak institutions—but *because of* weak institutions.

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