

What is capitalism with Chinese characteristics? Perspective on State, market, and society

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ABSTRACT.

This paper analyzes the institutional foundations and political reasons of China's economic growth. In reviewing some classical Western sociological theories on modern capitalism, it provides a framework of State-market-society triple helix for analyzing the Chinese economy and society at a historical and macro level. We then briefly describe China's economic miracle and point out that Chinese economic performance is in fact reinforced and amplified by its whole social institutions of labor market segmenting and unique regime of capital accumulation. The so-called Chinese market economy is constructed by the State as an ensemble of capitalists, who plays a role of constant stabilizing and legitimizing the institutional arrangements. China gives a very Keynesian solution to the Schumpeterian problem of economic development. Meanwhile, the Chinese social structure is transformed by the process of market economy formation. Firms and the corresponding productive organizations, instead of families, communities, schools and other social groups, are becoming the main agents of reproduction mechanism of China. Therefore, market logic of merchandizing all social institutions has gained a dominant position in the contemporary Chinese society which embeds itself in a more and more dissocialized economy. One can only understand the nature of contemporary Chinese society by knowing better its economic dynamics. Chinese capitalism is characterized by an opportunist State, a market economy built on particularistic relationships, and a culturally self-sustained society with strong pragmatist tradition.

Keywords: China; capitalism; State; market economy; life-world; social structure; sociological theory.

1. INTRODUCTION

Though Chinese authority insists that China is still a socialist country with the slogan of “constructing the socialism with Chinese characteristics”, most think it is just an ideological self-labeling. Westerners now take China as a model of State capitalism, authoritative (dictatorship) capitalism, or capitalism with Chinese characteristics (part of the East Asian Capitalism). In mainland China, however, the term “market economy” is usually used to replace “capitalism”.¹ For most Chinese, following Deng Xiaoping’s famous saying on “black cat or white cat”, capitalism or not is of no importance, yet many of them feel that China is becoming more and more Westernized.

The interest of raising the question on the relationship between China and capitalism lies less on defining the type of Chinese society than on understanding better its characteristics and finding its main problems, especially through the lens of social theories on the interrelated structures among State, market and society. The Chinese economic miracle has been abundantly analyzed, while its complicated interactions with the Chinese society and State have not yet been well clarified. Simply labeling China as “emerging market economy”, “State capitalism,” “crony capitalism”, or “*Guanxi* society” often creates more traps of stereotype than bringing more insights in Chinese economy and society. On the other hand, quite often the fundamental characteristics of a society is not that its economy or State polity belongs to type A or type B, but the unique articulation among the so-called official economy, administrative government and life-world of social group (HABERMAS, J., 1987). If capitalism is the primary nature of Chinese economy, its major characteristics as a whole society lies on this macro triple helix.

Theoretically, perhaps the most classic paradigm of industrial capitalism is given by Karl Marx. For him, capitalism is first of all an economic system in which the class of capitalists, who own means of production (capital goods, factories, machines, etc.) and pursue maximum profits, hires and exploits the class of workers, who sell their labor to the capitalists without alternative choice. On this infrastructure of society, all major spheres of social life, core cultural values and ideas, or societal institutions (family, religion, political, etc.) are organized to reinforce the relations between the two social classes dominated by capitalists. As an extension of the model of Marx, State capitalism is regarded as a system where the State is the principal actor and the referee in the economy, carrying out primitive capital accumulation of capitalists in traditional sense.

Different from Marx, Max Weber took capitalism as above all a spirit system whose birth and development are the result of a process of rationalization of economic actions. This specific rationality of “capitalist calculation” is widely represented by a variety of social institutions, such as social values, legal system, bureaucracy in organizations, etc. In his book *The Protestant Ethic and the Spirit of Capitalism*, he proposed that ascetic Protestantism was one of the major “elective affinities” associated with the rise in the Western world of market-driven capitalism and the rational-legal nation-state. Thus, capitalism is more likely to “be identical with the restraint, or at least a rational tempering, of this irrational impulse. But capitalism is identical with the pursuit of profit, and forever renewed profit, by means of continuous, rational, capitalistic enterprise.” (WEBER, M., 2001 [1904], p. 17)

Talcott Parsons followed the idea of Max Weber in defining modern capitalism, or free enterprise, or economic individualism as a system of voluntary social action (T. PARSONS, 1937), in which specific shared beliefs, norms and social values integrate social actors in certain macro institutions such as polity, economy, culture, and collective social life. Through some subjective common values, capitalist society integrates and maintains the social order, avoiding the famous Hobbesian problem of order due to the fact that profit-seeking actions based on rational calculation of self-interest can easily lead to a situation of war of all against all.

Very much in line with Parsons, Juergen Habermas conceived capitalist society from the

¹ During one international workshop called “Re-balancing the emerging capitalism of China” held in US, being asked whether such conference could be held in China, a leader of government school from a mainland university responded “yes of course, only need to replace the term capitalism by market economy”.

perspective of acting subjects as the life-world of a social group (HABERMAS, J., 1987). By the life-world, Habermas means the shared common understandings and values that develop through face to face contacts over time in various social groups, from families to communities. Everyday praxis yields culture, personality, and society as concrete spheres of life-world. This life-world has a quality of “of course” or “taken for granted” and normatively integrates the whole society as a system of shared values, through either consensus of embodied generalized interests, either application of force or coercion, with the goal of keeping these underlying conflicts latent. If social integration is achieved through conflict repression, the official value-consensus is ideological in the classic Marxian sense. Life-world thus constitutes the ultimate source of legitimacy of social actions. Whereas in advanced capitalist societies, the core function of integration has been increasingly regulated or “colonized” via money and power. Instead of resting on principles that arise in the life-world, social spheres such as academy, basic information, news, entertainment, and government are more and more like marketplace where transaction logic prevails or abstract principles of formal laws apply. The State is becoming a more or less efficient service provider, not a source of shared identity. Thus the legitimacy of social institutions, indeed of nation States, is in crisis.

Similar to the finding of Weber that the rationalization carried on mainly in economic activities spread rapidly in all other social fields such as commoditization and capitalization of labor, land, and natural environment, Karl Polanyi found that the inherent tendency of modern capitalist society is that instead of the economic system being embedded in social relations, these relations were now integrated into the market system (POLANYI, K., 1983 [1944]). So the real problem after the birth of capitalism is how to reproduce the social life-world while maintaining social order. The evolution of capitalist societies shows that despite the fact that economic action always penetrates fields besides economy, social values, social norms, or life-world are not built directly on them. In general, capitalist societies react negatively to anomic or anarchic situations. The State or other organizations representing the public interest always try to operate and regulate the pure market economy. This political, cultural and social control over the economy makes, according to Polanyi, the capitalist market economy “re-embedded” in modern society and subordinate itself to the social life-world.

As for the capitalism in China, it is commonly recognized that it is a State capitalism. But whether it is State-dominated or State-led, or State-guided or State-coordinated market capitalism is still debatable. This is in fact not a striking new point, given China has long been under the socialist regime of planned economy. On the other side, taking into consideration of the Chinese cultural tradition on relationship, social network, or *Guangxi*, it is said that the market process has led to re-emergence of clans and permitted the more local and personalized institutional order following other Asian economic institutions. China is thus regarded as network or relational capitalism (BOISOT, M., J. CHILD, 1996). The Chinese networks of relations are characterized by its various processes and forms, bottom-up (relations initiated by grassroots class and entrepreneurs) and top-down (formalization governed by officials from above), or, outside-in (networks brought in by foreign investors in China) and inside-out (networks brought out by overseas Chinese), etc.

According to Christopher McNally following Heilbroner, a framework of capitalism consists of three elements: the process of extracting and accumulating capital; the structuring of markets over the whole society; and the emergence of a capital-oriented social class. Stating that the Chinese social structure and development tendency are quite different from the conceptualizations in the West, he proposed the concept of Sino-capitalism, which incorporates partially the informal business networks rather than legal codes and transparent rules. It also assigns the Chinese State a leading role in fostering and guiding capitalist accumulation, as well as the integration of Chinese economic growth in the globalization (MCNALLY, C., 2006). The Chinese State dominates over crucial aspects of the economy while it is tempered by the entrepreneurship and dynamism of China’s network capitalism. Institutional hybridization has allowed these two dissimilar types of capital accumulation to co-exist and become co-dependent in Sino-capitalism. However, as a matter of fact, the inner core part of the Chinese State

capitalism or its participation in global capitalism is all the Chinese network capitalism by nature, only the forms of relationship vary accordingly.

McNally also noticed that there is a deep historical institutional reservoir and traditional value system that have shaped Sino-capitalism (MCNALLY, C., 2011). Chinese society is ruled by social relations rather than by explicit laws. The relations are often among collective actors composed by individuals searching each one the maximization of profits and benefits for her or his own life-world. Chinese social structure is a kind of relational market, which has a tributary State on the top and remaining part is composed by small merchant capitalists, without any middle class in between. Therefore there is no separate sphere of “economy” or “market” from political State or communitarian society. Furthermore, there is a mutual conditioning and strengthening of State and society through the intermediation by a unique bureaucratic hierarchy. In fact, the current combination of vibrant bottom-up entrepreneurship and a dominant State governing the economy top-down bears a certain resemblance to the political economies of the Song to late Qing dynasties. During these dynasties, the State stifled high finance and reinforced a reliance on personal ties – *Guanxi* – to undertake business dealings. The sanctity of contracts and rule of law played second fiddle to ritual and patronage. A preference for interpersonal accommodation thus hindered the development of bureaucracies with formalized and universally applicable rules. In this regard the imperial China possessed over the past one thousand years a sizeable class of small merchants and producers, but real capitalist accumulation could never progress since it was harnessed by the imperial State for statist purposes. This observation found its echo in Aglietta and Bai, who defines the Chinese “*capitalism sui generis*” by its unique relationship between State and society, in which the legitimacy of the Empire depends on its capacity of supplying to the people certain social benefits in exchange for their loyalty. The Empire offered a social ascension pathway through a system of official selection, which is also under an ideological paradigm defined principally by moral codes of Confucianism (AGLIETTA, M., G. BAI, 2012). Searching for becoming more successful in this Confucian system of official bureaucracy replaces the search for gaining more commercial and economic profits as a strategy of upward social mobility. Thus the official bureaucracy hinders the emergence of the spirit of capitalism in old China.

The overall structure of this paper follows Heilbroner’s logic of capitalism as advocated by McNally, but the core analysis of the so-called Chinese capitalism lies heavily on Hebermas’s conceptualization of the life-world of social group, as well as on Parsons’s concern of the problem of social order and integration. By sequence, it is raised the questions such as: if China is of State capitalism, how it is different from the State capitalism of other developing countries? Whether the “spirit of the Chinese capitalism” is really created by its unique networks of relationship (REDDING, S.G. 1990), or Guangxi network in the market is just an enhanced form of representation of capitalist spirit? Whether there a rising middle class in China who is searching for gaining more social-political power from the authority regime, or it is just a myth invented by the Western theorists or statisticians? Is China crony capitalism? Through giving answers to the above questions, it is hoped that the contours of the capitalism with Chinese characteristics can be delineated roughly.

2. CHINA’S STATE OPPORTUNISM: GOVERNMENT AS AN ENSEMBLE OF CAPITALISTS

China is more than a State capitalism. The Chinese State is characterized not only by its high degree of intervention and control over the economy, or by the developmental economic strategy as a system filled with reciprocal consent by government and private players, but rather by the fact that the government itself becomes an outstanding interest group and behaves like a private capitalist. Under the ideological construct of “State”, the Chinese government searches first of all to maximize its own economic benefits, even in competing with other collective actors in the society, as well as to defend its own power status from challenges and constraints. In essence, it is a kind of State opportunism since the Chinese government makes all efforts to exploit its symmetric information, status and resources to serve its own interests, well above the

interests of Chinese society as a whole, the principal in theory. Through its fiscal, foreign exchange, money and State-owned firm policies, the Chinese government successfully accumulated capital, institutionalized the utilization of domestic labor, and well protected and enlarged its interest as a special social group.

The initial goal of China's economic reform and opening up was not to obtain a comparative advantage in the global value chain, but to maintain the political system in China. Since 1978, Deng Xiaoping led an economic revolution to save the political stability of China against the economic consequences it has inherited from Mao. He advanced the pragmatist doctrine of socialism with Chinese characteristics, which has given political legitimacy to the pursuit of wealth and profit by individual persons and private entrepreneurs. The opening of China to the outside world has been bootstrapped from the coastal Province of Guangdong. Through the experience of Guangdong, the Chinese government has gradually found a very effective way to achieve its goal of economic growth: integration into global production through export manufacturing and foreign direct investment using cheap domestic labors. The government has adopted many preferential policies to attract foreign investment and construct new industrial zones to accommodate a large number of industrial firms employing the "migrant workers" from inland China (ARVANITIS, R., P. MIEGE, W. ZHAO, 2003). Thus resources beyond the control of government were mobilized to maintain the survival of the government in generating multiple new economic actors in the system: local governments, State-owned enterprises, private entrepreneurs, and all other social organizations have become tools for the ultimate profits of government (WALDER, A. G., 1998). Chinese political structure has a division of powers between the central and local governments. Reform in the economic system has led to the decentralization policy which strengthened the powers of the local government, whose primary concern is the maximization of local revenues, including taxes, foreign investment, profits and even local businesses (MONTINOLA, G., Y. QIAN, and B. R. WEINGAST, 1996).

Since tax revenue and GDP became the main objectives of all political officials, like all capitalists, Chinese government made excessive capital investment in industrial production. One form of such investment was lowering prices of lands to attract large scale manufacturing firms. Other forms include controlling factor prices in favor of investors and even direct engagement in fixed asset investment. In 2006, Chinese investment reached 50% of GDP. That investment rate has surpassed those of Japan and South Korea during their industrial takeoff. During the crisis of 2008, in terms of revenue in the country, the proportion of total government revenue represented approximately 24% of GDP. Expenditure of domestic investment reached 42% of GDP, most of which came from public savings. According to a "China Reform" magazine article, in 2009, the government set up 8,221 financing platforms and made credit loans of 5.56 billion Yuan, representing more than 50% of total loans. That year, the growth rate of China's GDP was more than 8%, with a contribution of government stimulus for 3.25%. By injecting investment continuously in circulation, Chinese government has created high expectations of revenue of all economic actors, thus created a kind of "convention" for investment behavior. China's financial firms are almost all State-owned and gave loan schemes under government order without taking into serious account of risk. At the macro level, State-led excessive capital investment leveled up the "state of confidence", i.e., trust in Chinese market development. To some extent, China boosts its market economy in adopting the propositions advocated by Keynes for the period of economic and financial crisis. Its short term macro investment measures created a strong linkage between the expectations of future revenue and the current investment decisions among private sector, the foreign investors and even the State-sector itself and solved the Schumpeterian problem of dynamics of development (ZHAO, W. and F. LA PIRA, 2013).

But the primitive accumulation of capital is the usage of Chinese comparative advantage of a large number of cheap rural labors. The investment in enlarged reproduction is made possible thanks to an unchanged or even lowered real wage level. From 1995 to 2003, rural migrants have flooded into the manufacturing factories in coastal regions. A research by Peking University shows that over the past 20 years, the average growth rate of wages for manufacturing in China is only 7%, and the average was between \$ 65 and \$ 70 per month in net pay. Systematic

exploitation of almost unlimited rural labor supply has been interpreted as a recipe for Chinese miracle (LIN, Y., F. CAI, and Z. LI, 2000). Though wages have taken more than 10% to 15% per year over the last four years, China still has 40% of the active population engaged in agricultural production, 11% of GDP. Furthermore, the comparative advantage of massive cheap labor has been systematically institutionalized by the government intervention. The social system for maintaining comparative advantage is based primarily on a system of legal status of residents, the *Hukou* system. The household registration policy was to prohibit free movement of labor. Farmers seek jobs in cities maintain their status as a farmer. The inequality of State welfare obligations towards urban residents and rural residents allows continuing discrimination against rural migrants in the workplace. Thus, the working time and civil rights are usually ignored by business. Workers do not have the right to free collective bargaining. Firms can easily made workers work more hours, lower, withhold or pay late their wages, and deprive workers of their personal freedom (QIN, H., 2009).

A by-product of this massive primitive capital accumulation was huge foreign exchange reserves held by the Chinese State. In fact, China's net exports and current account surplus peaked in 2007, representing 12% of GDP. In 2009, the current account surplus has declined, but still accounted for 6% of GDP. In 2010, China's foreign reserves reached 2.85 trillion US dollars. The government exercises strict exchange controls. If Chinese companies exporting to the foreign countries and earning U.S. dollars, for breeding in China, e.g., for purchases of raw materials, they need to exchange those dollars to local currency RMB. These companies sold these export dollars to commercial banks, which are State-owned banks, in accordance with the payment of a relatively fixed exchange rates mandated by the central bank, such as \$ 1 to honor seven RMB Yuan in 2008. Logically, there would be Chinese companies wishing to buy U.S. dollars with their RMB from commercial banks in order to import foreign equipment, and this would make the capital account balance. However, in reality, most companies knew that Chinese government artificially lowered the price of RMB against the U.S. dollar, and were reluctant to buy the expensive dollars to import equipment products. As a result, the foreign exchange in China was added, and foreign currencies rushed in China for buying the cheap and abundant local currency RMB. The "hot money" thus further increased the foreign currency reserves held by the Chinese State. Gradually, with this warehouse foreign currencies and an appreciation of the RMB, the Chinese companies begun to buy foreign products more profitable, and State enterprises begun to invest abroad, often in the political task. Meanwhile, the Chinese central government intended to carry out some capital speculation, mainly buying government bonds in the United States and European countries with a very low rate of return. Domestically, the Chinese government created capital through increasing money supply. China's money exceeded GDP growth rate every year for more than two decades.

The additional capital or credit is created by State-owned banks and mainly for financing the existence of State-owned firms, both are in fact part of the government itself. The Chinese bank concentration is very high and the financial markets are dominated by State banks. As of 2007, the listed shares of the seven State banks accounted for nearly one third of the total market value. Yet at the same time, these banks carry combined unrecoverable loans totaling in excess of 600 billion Yuan. Most of the loans were credited to the 120,000 State-owned enterprises (and its many subsidiaries) in the hands of government, while their production represented only quarter to a third of total industrial production. Government officials at different levels and in different units are ordered to support State-owned firms and banks, and their departments often take an interest in these economic organizations. China's "national champions" also hold most of the shares on the Shenzhen and Shanghai equity markets, and are listed in world financial market centers. By 2012, China featured 73 out of the Global Fortune 500 leading enterprises, most of them are among the 155 State-owned enterprises that remain under direct central government tutelage. China's industrial policy was yielding considerable dividends to the Party-State in its capacity as lead shareholder. A few large companies (State companies and financial institutions managed by the government) can obtain low-interest loans, resulting from excessive capital provided by the State. Since the creation of business groups in 1998, strategic sectors such as

petroleum, petrochemical, energy, telecommunications, civil aviation, maritime transport and mining were all occupied by the State monopoly. Contrary to a normal State capitalism which protects the expansion of the market economy in all sectors of society, the Chinese State capitalism gives privileges to the long-standing State-owned sector, i.e., its own group.

Though many competitive sectors in retail and manufacturing are populated by private (both foreign and domestic) or hybrid ownership firms, it is still the State-owned firms that hold the commanding heights of industry and finance of the economy. Within these State-owned sectors, after years of “informal” or “underground” privatization, government officials and large State firm executives have formed a special interest group which commands the State controls. The group has its own benefits to maximize and protect, thus it is competing with all other non-government entities in all fields. As a developmental State, it is true that the Chinese government has a broader vision of risks, and is the only one capable of leading the economy as a whole. But the particularity of Chinese State capitalism doesn't lie on the State's intervention and control over the economy, which is a quite common during many instances of capitalist development such as South Korea and Taiwan. It lies on the fact that the State builds up its own assets and institutions, while accumulating and exploiting capital for serving the permanence of the system. In the Chinese State capitalism, the government has become a special interest group in the society and follows the behavior logic of a private capitalist (sometimes an entrepreneur), i.e., competing with other actors and putting its own political and economic interests in priority over the mass public.

3. THE SPIRIT OF CHINESE CAPITALISM: METAMORPHOSIS OF CHINESE LIFE-WORLD

The opportunism of Chinese State can find its root in the deep structure of Chinese culture. As a matter of fact, Chinese government is not the only opportunist actor in China. Firms, families, associations, organizations, and individuals are all, to some degree, opportunist. The whole Chinese society is an opportunist one. Culturally the life-world of Chinese is exempt of religious system and money is becoming a more and more secular religion in contemporary China. Opportunism, or self-interest pursuing by specific social groups, is part of “pragmatism” within the Chinese tradition, which is the core spirit of the Chinese life-world. The current mercantilist Chinese government developed the country's industries through introducing and implementing certain capitalist institutions of market economy (price mechanism, private property rights, *laissez-faire* competition, market opening, and commercialization of services and information, etc.), but it is not willing to and not able to bring the Western spirit of capitalism into the Chinese culture.

Taking capitalism as a specific rational economic action for the purpose of making transactions in market, Weber considered “the spirit of capitalism” originating from protestant ethics which held a calling to prove one is selected for the honor of the God, as well as some moral beliefs such as “Honesty is the best policy”. With the development of capitalism, its spirit gradually extricated from the religious value system and built up its own legitimacy based on legal-rational foundations. Weber also analyzed the Chinese Confucianism and found many elements which had affinity to capitalism, just as current businesspersons often say that the Chinese are complicated and clever in doing business. However, even sometimes the behavioral forms and performances are similar in doing business, the Chinese pragmatism is by nature not the Weberian spirit of capitalism. One example is profession. In Weberian spirit of capitalism, a person's profession is taken as a vocation with full respect of the work; in Chinese culture, it is a practical tool for jumping to another better position or getting rich quickly. Vocation has been replaced by the so-called personal career since China's opening and reform. For all Chinese, not only people in business, the only criterion of a successful career now is money, because all must be bought by money in the Chinese market economy: children's entrance in famous schools, entrepreneurs' reputations, parents' hospitalization, intellectuals' ranks in institutions, and exposures by medias, etc.

The real characteristic of Chinese capitalism is the sustaining Chinese life-world, which is

not, and never embodies, the spirit of capitalism as Weber defined. Life-world, a term that Habermas adapts from Alfred Schutz, refers to all sorts of assumptions about who we are as a group of people and what we value about ourselves: what we believe, what shocks and offends us, what we aspire to, what we desire, what we are willing to sacrifice to which ends, and so forth. Most of these assumptions are latent in Parsons's sense of latency. Their legitimacy or power is their "of course" or "taken for granted" quality. Questions about the life-world can only be answered by some version of "because that's who I am and who we are". Sharing a common sense in a life-world integrates people in a society. The social action of fulfilling these common value commitments in everyday life reaffirms the fundamental social legitimacy and latently maintains the integration of a society. In terms of social action², the Western capitalism and the current Chinese capitalism may look like each other in many aspects: both involve rational economic actors; both have pecuniary objectives; both search for efficient and practical means; and both are in situations of similar capitalist institutional forms, such as market transaction, free competition, private business, and permission for seeking profits, etc. But they are still fundamentally different in terms of norms and values, and most apparently in terms of cultural rituals. In fact, the Chinese capitalism not only keeps very well its traditional cultural forms of social action, such as the emphasis on "face", "relationship", and "human sentiment", etc., but also sustains or even reinforces its core value system of pragmatism and utilitarianism, i.e., the spirit of Chinese life-world. The reason of such difference in spirit of capitalism is because, different from the indigenous ethical and religious root of capitalism in the West, the Chinese capitalism begun with the State's political adoption and implementation of a series of institutions around market economy from outside and above. Facing on this new conditional situation, the Chinese, very much in line with their traditions of authority-and-order respect and superficial adoption of exogenous elements, pragmatically amplified and catalyzed the essential spirit of their life-world, i.e., the pragmatism. Though China's capitalist institutions are Western-style, the resulted spirit is always Chinese by nature.

The current spirit of Chinese capitalism is thus a cultural metamorphosis of Chinese life-world catalyzed by the introduced capitalist institutions. In terms of structure of social action instead of culture, the Chinese life-world has four characteristics (QU, X.-w., 1998): pursuit of self material interests based on personal utilitarianism; differential and sequential mode of association based on relational particularism; formal obedience to secular authority and status order based on normative Confucianism; and contingent strategy of concrete action based on pragmatism.

Without religious spirit as an ultimate value, the Chinese life is always secular and people are concerned of how to participate in everyday substantial activities. The most valuable thing for most Chinese is their material interests, since the per capita income for its 1.3 billion people is still in sub-\$ 3000. In terms of personality development, Chinese is regarded as stopped at the early stages of id formation where the focus is still on physical needs and there is no clear cut difference between id body and others (SUN, L.-j., 2004 [1983]). The desire of Chinese on making a fortune is just like the desire of freedom by the Westerners (SUN, Y.-s, 1986 [1924]). To some degree, Chinese are all materialists and maximizing own material interests becomes a major goal of social action. The Chinese id is of utilitarianism and also of personalism. Even in

² In his book *The Structure of Social Action* (1937), Talcott Parsons identified five key elements of social action as a system: the actor with specific social personality, which corresponds roughly to the classification of id, ego, and super-ego of individuals, by Freud; goal of action, which is concrete and has subjective meanings; means of action, which is all kind of resources that actor mobilizes and utilizes for achieving the goal of action; norms, values and other "ideas", which are ethics, laws, rules, normative cultures, and ideologies in a society; conditional situations, which are various and changing circumstances of social action, such as emergence of State, rise of certain social classes or ethnic groups, transformation of formal institutions, war or social conflict, social mobility, and other social changes. Parson's theory on social action is very much attached to the tradition of Max Weber, and provides in fact a broader framework to analyze the Weber's theme on the spirit of capitalism. Concretely, Parson's general theory of social action reveals that social action or orientation of behavior is a system, not only determined by cultural identities or social norms; it depends also on conditional situations and actor's social personality. It is therefore often misleading to directly predict social action in a society only by its cultural identity or traits, which are normally the representative social norms or historical myths to actors; in another word, they just represent what makes the super-ego of individuals. Overtime, norms, values, or cultural "ideas" can leave forms to social action, but these forms become superficial and are not the substantial logic of social action. So social actions in different societies may appear similar in terms of goal of action and means of action, but this similarity doesn't sufficiently mean that social actions are based on similar social value system, or conditional situations, or social personalities which are related to the deep structure of a society's culture. A thorough understanding of Parson's framework on social action is a key to understand the so-called "spirit of Chinese capitalism" and its difference with the Western spirit of capitalism.

the rich scalable personal network of social relations, the center is always “oneself” which defines the value outside the ego. The Chinese network of social relations is developed and evolved around each person’s ego, so “private” and “personal” self represents the core value of Chinese social behavior (FEI, X.-t., 1992 [1947]). The key issue here is not what the ego of Chinese is, but the Chinese are not collectivist in the normal sense. Meanwhile, in practice, the goal of pursuing “private” material interests is often covered or hidden by the superficial obeying to moral ethic codes of Confucianism. Regulated so powerfully by the Confucian ethics which take all pursuit of own material interest as greatest villain, Chinese dare not speak explicitly for profit-searching, but justify this behavior by put it under various forms of Confucian rituals and ceremonies. Therefore, the particular behavior of Chinese profit-searching is full of formalism and appears to be a moral one, just as the Chinese proverb said “Gentleman loves fortune and gains it by justified way”. Under the shadow of social norms, Chinese individuals carefully develop all kinds of tactics to pursue selfish interests, and use all probable clues and indirect means to reach its goal of interests-maximization, but at the same time seems to be consistent with social moral requirement. Perhaps this is one of the reasons why Chinese are seen as good in making deals in business.

However, in pursuing own interests, Chinese always cultivate and form social relationship with others. This enlarged scope first includes naturally family members who have sanguinity, then may extend to those who share the same or similar identities with the person, such as people of same school, same region, and same profession, etc. But all relations are built around and by the person, and the force of interactions depends on the connection’s usefulness to the interests-pursuing of the person and other actors. These relations are vital to Chinese since they are the means and sources of individual’s interests. Also, because each individual forms its own network of social relations by putting always ego as center of such network, all Chinese social relations are private and personalized by nature. This means relations are often comprehensive and mixed of private life and non-private activities. Thus each Chinese is claimed to be surrounded by a series of concentric circles, produced by one’s own social interactions. Each network of social relations has a self as its center. Each circle spreading out from the center becomes more distant and at the same time more insignificant. Everyone’s circles are interrelated, and one touches different circles at different times and places. On different occasions, one’s own social network comes into contact with someone else’s. The whole social structure of China is composed and added up by such private and particular contacts (FEI, X.-t., 1992 [1947]). A practical consequence of this differential and sequential mode of association in social networking is that people seek connections in higher places and do things for the sake of relation itself. Another consequence is that, in China, private selfishness is justified by moving toward the State: both public officials and private persons use the same conception of the social order to define the context of their action. This mode of social association does not allow for individual rights to be an issue at all, and social morality makes sense only in terms of personal connections. After China’s opening, many multinational companies quickly understand this nature of Chinese relationship and actually promote close ties between capital and the State. Rather than seeking autonomy, most capitalists in China seeking to extend their tangled in institutions of State and Party, both for commercial and political reasons (BREMMER, I., 2010).

Because the ethics of Chinese society originates from ego and its family, then extended to village sects, regions, country or even global world, there is traditionally no such a space called “public” and no development of corresponding codes of conduct. Confucian ethic norms are in fact for coordinating and regulating the private and personalized social connections among Chinese. Confucian ethics forces its members to submit with patience and care; its rituals provide details of social life; and its core value on “kindness” is supposed to purify the inner mind of individuals. But all these doctrines also reflect that there is a big potential problem for Chinese society of how to keep harmony by integrating conflictual personal interests. In history, Confucianism as a system of social moral philosophy was promoted by authorities because they saw clearly where the problem of social order was: outside the emperor’s family, there were thousands of families who followed only their own family moral ethics and the State had no

separate moral foundation other than those of families. Confucianism theorized the historical traditions of Chinese social relations and provided a normative interpretation of these private relations along the continuum from ego, to family, to local sect, and to State. The normative relationships between individuals were formalized in “rituals” and were used as rule of State to govern the society. But the base of Confucian moral ethics is always individual and its relation with other. It takes into account the particular circumstances of individual and requires taking care of each concrete person. As private relations, the Confucian “rituals”, ethics, or laws in China are all of particularism. They are flexible and changeable according to different implementation target actors and their relationship distances with ego. For Chinese, there is no universal moral standard and the State is not ruled by law. Finally, what remains unchanged is the ritual itself and the form becomes the norm. The so-called Chinese rituals such as “face”, “order”, “human sentiment”, etc., are all conformed because they provide forms, not just because they are legitimate norms. But their function is more for performing one’s pursuit of own interests through particularistic social relations.

Therefore, Confucian ethic norms are always used by Chinese to justify their contingent social action. The contingent attitude of behavior doesn’t create cognitive dissonance to Chinese psychology, because Confucianism itself as social norm or value criterion is flu, formalism, and particularism. In fact, under the form of Confucian moral system, Chinese adopt very flexible and adaptive strategies to respond to different circumstances, conditions, places, time, people, and relations. The pragmatic strategy is invented in view of different configurations of contexts or situations. For example, as Confucian ethics takes all particularistic relationships on a same continuum, the circles of social relations of Chinese as “closed” connections can be very flexible. According to different place and time, its scope can vary from a small group, father and son, brother, friend, subordinate, superior, colleagues and strangers, to a general population, as long as the relations serve as means to achieve the person’s goal of self-interest pursuit. Social norms are often re-interpreted according to the particular personal relationship and the specific persons that they aim to regulate, as long as the forms of Confucian rituals are respected. Ultimately, social norms and value system are changeable vis-à-vis the unchangeable goal of self material interest pursuit and particularistic relations around the Chinese ego. The characteristic of Chinese capitalism is not its Confucian ethic or authoritative form, but its pragmatism of strategy.

The system of market economy in China is constructed under such a contingency strategy by the Chinese life-world. The introduction of the concept of market economy by the political authority created a specific new conditional situation in the Chinese life-world. The official definition of market system in China by the government is “Socialist Market Economy with Chinese Characteristics”. For Chinese government, this definition serves as a new ideology for the country’s reform and opening. The term “Socialist” justifies a strong State intervention in market operation and keeping the dominant and monopolistic positions of State-owned firms in strategic sectors. This idea also convinces Chinese leaders that the control of a large part of economy by the State is the most reliable path to prosperity and national security (BREMNER, I., 2009). But for Chinese people as well as officials as individuals, the term “Market Economy” represents a cognitive paradigm in which atomistic, fluid and individualized suppliers, clients and workers can have total freedom of using whatever means to compete for gaining maximum self material and financial interests.³ Market economy is a new value system which explicitly provides legitimacy to the pursuit of personal interests, just as expressed by the political slogans “Let part of people get rich first” and “It is glorious of making a fortune” in 1980s. In practice, Chinese constructed a market economy in their ways. Chinese market institutions were built on existing social structure, i.e., the Chinese differentially associated social relationship networks. Market transactions were carried out through these private social relations, which are mixed of political liaisons, status equivalence, professional recognition, commercial interests, and personal acquaintance, etc. of connection. Since all social relations in China are based on particularism, the commercial relations in Chinese market economy are developed less on legal contracts and the

³ This is what Fligstein defined as conception of control, which is a cognitive model held by actors on how market operates. The conception of control is often embedded in stable local knowledge (FLIGSTEIN, N. 2002).

rule of law, but rather on kinship, friendship, emotional considerations, faces, gifts, and favors, etc. For example, the success of many firms depends on the favoritism in form of tax breaks, government grants and other incentives from government. Many business transactions are settled through negotiations within a network of a person's relationships based on mutual obligations with local government which provides resources. In one word, the transaction rule is based on the private relations of different distances to the ego. Furthermore, the Chinese private relations follow the principle of particularism. So there are almost no official general rules in market and laws are in fact particularistic for exceptions based on situation of relationship, for example, the exceptional opening of Guangdong ahead of other provinces and the establishment of four special economic zones in 1980s. Based on particularism principle, there are special arrangements of property rights and governance structures in companies: capital flow-in from Hong Kong and Macau is regarded as FDI even originates *de facto* from mainland China; only SOE have privilege to set up joint-ventures with foreign investors in certain sectors; special status given to contractual agreement as Sino-foreign cooperative joint-venture, etc. Also based on the particularism of social relation association, private firms can get a "red hat" of SOE or collective enterprises, and SOE can be informally and *de facto* privatized. Faced with the legitimatization of the concept of market economy, Chinese reaffirm their goal of pursuing own material interests, instrumentalize and extend all their social relations as means for market transaction, and set relational particularism, in stead of universal rule of law, as institutional foundation of the whole market economy. When such hidden rules become norms and are practiced as secular religion in people's everyday life, market economy completes its Chinese characteristics.

The adaptation and construction of market economy through the Chinese life-world is also the transformation and metamorphosis of the Chinese life-world itself. They are just like two sides of the same coin: social action. The Chinese desire for own material interests, depressed so long time by the Confucian norms and communist regime, is totally released through market economy. Economy, money, transaction, and capital occupy a dominant place in Chinese life-world, as the phenomena of "all people becoming businesspersons" or "everything being business". From State officials, to scholars, to business managers, to workers, to household wives, all people debate over who has ownership on what and target everything for *de facto* privatization and possessing. Personal network of social relations are instrumentalized and everyone has the strategy of building networks of relationship as means of achieving goals. Human labor, social relation, cultural heritage, political power, information and knowledge all become capital and should be capitalized. Chinese traditional behavior routines such as "face", "personal emotional liaison", and "rituals of respect", etc., all become practical tools for maximizing own interests. Weber ever defined the emergence of capitalism in the West as a process of rationalization; in China, it is a process of "pragmatization". Above all, the Chinese shared values and ethic norms are transmuted to the common pragmatist attitudes towards market economy. Market, in Chinese sense, has become the prototype for designing and constructing institutions in every domain of activities in a society: from education to health, from housing to social security, from police to media, from court to administration, from workers union to NGO, etc. They are not public services or activities, but markets based on particularistic relationships. The whole Chinese society is becoming a compound market. Embeddedness, in the sense of Polanyi, is two ways in China: economy in society and reverse. Thus the Chinese life-world is eventually morphed into a market economy of capitalism.

4. MARKET ECONOMY AND THE CHINESE SOCIAL STRUCTURES

If the emergence of capitalism in the West in the 19th century implies that economic activity as a distinctive thrust is isolated and differentiated functionally from traditional social life, in China the capitalist growth brings a fusion of economy and society, and the substitution of social life by market mechanism.⁴ Social domains or non-economic spheres, such as education,

⁴ Polanyi (1983 [1944]) also said that once market organization, as a singular new thing in human history, dominated industrial life, all other institutional domains were subordinated to this model. A market economy cannot exist without a market society.

health, social security, arts, leisure, and housing, etc., all become big markets. For example, since 1990s the education system was developed under the strategy of “industrialization and commercialization”, with the higher education fees increasing 25 times during 30 years. Students, under social pressure of peer competition, are obliged to participate in all kinds of supplementary classes outside formal education programs with even higher fees charged by schools and teachers. Faced with such market society, the typical reaction of Chinese middle class or *nouveaux riches* is emigration abroad. It is estimated that among the 950 thousand households with assets more than 10 million Yuan, 46% have intention to emigrate abroad and 14% have already emigrated or are in process. While among those with assets more than 100 million, 74% have intention of emigration. For example, for the single year of 2009, there were 25 thousand Chinese immigrating to Canada, 65 thousand to US, and 16 thousand to Australia. It is said that the immigration agencies in China target all population with annual revenue above 120 thousand Yuan as their potential clients. Till 2009, China has over 1 million 600 overseas students and scholars; among them only 500 thousand decided to return to the country and 275 thousand eventually did. The reasons for emigration are all the same: better education for children, clearer air, safer food, rule of law, protection of personal properties, and even visa exemptions of numerous countries, etc. The Chinese market economy provides an alternative form of social integration but does not satisfy the very human needs of reproduction of social order. Apparently, for ordinary Chinese indulged in its networked culture and tradition, immigration to a foreign country with total strange social circumstance is kind of cultural “suicide” or “anomie” in the sense of Durkheim, but the Chinese would rather take it as a kind of “exit” strategy other than “vote” or “voice” strategies in terms of Hirschman. A typical Chinese immigrant family is now described in Chinese as “naked” businessman or official, i.e., the housewife and children reside abroad while the husband continues to stay in China, doing business or official job in holding a foreign passport secretly. “Exit” is social because there is a loss of meaning and quality of social life in China, while economic participation is kept because the Chinese market economy is the only and sustained carrier of Chinese culture. Doing business in Chinese economy provides a social salvation to the Chinese middle class immigrants who commit an apparent cultural suicide.

The statistics of 5th national census shows that about 15% of the Chinese population belongs to the rising middle class, including ordinary employees in tertiary sectors and middle-level technicians in companies (10.3%), employees in technical, administrative and commercial functions of companies (2.3%), and professional technicians, managers and executives of companies (2.6%). The other 65% of population has low scored social-economic status, mainly composed of peasants in agricultural sectors, low-wage workers in urban areas, and immigrant rural workers of private, township and village enterprises (LI, Q., 2005). But the Chinese social structures in reality cannot be defined in terms of statistics and its social stratification cannot be analyzed in terms of social class. That is to say, even existing in statistics, the middle class in China is just an intellectual illusion since there is no possibility of generating any “class consciousness” in Marx’s sense, due to the unique situation of Chinese social structure. As a matter of fact, traditional China is not a society of class. Between the central State, which was *de facto* the emperor’s own family, and the large number of rural families, there was only a light-weight bureaucracy as a channel of social mobility. If these rural families could be called as “civil” society, during long time it as in a state of auto-organization and regulation, without direct and tight control by the emperor’s family (SUN, Y.-s., 1986 [1924]).

Chinese traditional social structure is now replaced by a market framework: the imperial State is replaced by opportunist governments at different levels and the rural families are replaced by thousands of social groups searching for their specific interests.⁵ These interest groups are formed first of all by primary social interactions such as relationships of parents, kinship,

⁵ The relationship between Chinese individuals and social groups can be described as resource-dependent, i.e., Chinese individuals take collectives as a life-unit which has full dimensions of relevance to personal life. This doesn’t mean Chinese are collectivist in its strict sense, because Chinese individuals will never give up their own interests for a kind of collective interests, but they will always need to be part of a group to get their own interests. Before the industrial reforms of the 1980s, the dependence of urban residents on their workplace (a State work unit) for access to daily necessities such as food and clothing, as well as important living infrastructures such as housing and medical care, reflects somehow the dissociated relationship between Chinese individuals and collective.

friendship, neighborhood, and geographical proximity, etc. The personal circles of relations are then constrained and reformulated by a series of institutional arrangements related to personal status identification made by Chinese State, such as differentiated administration systems of residential rights (*Hukou*), employment, education, health, social welfare, housing, marriage, birth of child, and other opportunities, between urban and rural areas, between coastal and inner land regions, between big cities and small cities, between those with university education and those without university education, between employees within State sectors and outside State sectors, and even between State sectors at central level and local level, etc. And finally, the interest groups are formulated in different industries or sectors of activities through market transactions, with different access to factor resources and different pricing power in the economy. Thus the social differentiation in China is deployed along these interest groups formed by the forces of social interactions, government regulations, and market competition, in stead of social classes based on industrial relations. For example, Chinese statistical data shows that the annual social welfare expenditure per employee of central State-owned firms in 2008 was 3387 Yuan. But the difference between the firm with highest expenditure (44.6 thousand Yuan) and the firm with lowest expenditure (only 149 Yuan) is 300 times. According to the Ministry of Human Resources and Social Security, the average salaries of State dominant sectors such as electricity, telecommunication, banking, insurance, and tobacco, are 3 times higher than salaries in other sectors. If adding housing, income beyond salary, and social welfare, the real income difference can be between 5 to 10 times among different sectors.

For individual Chinese, the involvement and attachment in certain social groups or collective circles are contingent. But the resulted overall social structure of China is composed by highly fragmented mosaics of social groups with their stable specific interests.⁶ All social groups behave like firms in market of competition or even explicitly construct their legal identities as business companies. The direct competition among different social groups constitutes the “fields” in the sense of Bourdieu (BOURDIEU, P., 2005). For example, the field of higher education, especially its subfield of business schools, is composed of schools of national public universities, schools of local public universities, schools of Chinese private investors, schools jointly established by foreign business schools and Chinese universities, schools established by overseas Chinese investors, and Chinese campuses of foreign business schools, etc. These schools are surrounded by different systems of government regulation, different labor market of professors and staff, different financial resources, different governance structures, and different sources of students. The whole social structure is similar to a market structure of oligopolistic competition: society is broken into small pieces of specific fields of activities of interests searching, and in each field a small oligarchy concerned only for its own immediate interests competes. This social structure of oligopolistic competition can even be found in the ruling Party of China, which is in fact not a social political movement but rather becomes an institutional framework of organizing the State within which different small social groups of interests compete for power. From inside, China is far away from a well-organized State controlling each individual from top to the bottom, or a society of clear stratification with one social class over another layer. It is more like a plate of small clusters of sands. But all clusters are more or less linked to a bigger cluster of sands: the State.

Therefore, the current Chinese social structure is reproduced through market transaction process under the institutional arrangements of State. Since the social structure is characterized by thousands of mosaic of small social groups of interests, social capital of individuals becomes the major differentiator of social status and competitive advantage in market. According to Bourdieu (BOURDIEU, P., 2005), social capital is the network of social relations and the volume of all species of resources that the network enables to be mobilized by proxy. In China, a person’s mastery of a very large proportion of social capital in effect confers a dominant status in specific field, and hence over those who are less endowed in terms of social capital. Even in 2005, a survey of 6000 university graduates showed that more than 50% of students believed that their parents’ social connections were vital for finding a job, and 27% admitted that they eventually

⁶ Chinese scholars often describe the state of social structure in China as “organized anarchy” or “family centralism without social order”.

found their jobs through parents' connections. A research report published by Chinese Academy of Social Sciences in 2007 concluded that the probability of becoming State cadres by those whose parents were already State cadres was 2.1 higher than those whose parents were not State cadres. With such reproduction mechanism of social structure, it is not a surprise to find that the popular strategies of social mobility in China are called "competing fathers", "occupying a sector", and "occupying a position in State sector", etc.

Since the Chinese market economy is not built on rule of law but on social capital or relational particularism, its social structure is maintained not by legal-rational legitimacy or traditional authority, but by relations of force in market transaction and competition. In other words, underlying the Chinese social structure is a structure of real power. Within the power structure, it is the Chinese State who, with its political power, has all and the only legitimacy to interfere and alter the functioning of its market economy or society right now. Therefore, the most pragmatic strategy of social mobility in China is to continuously covert financial and technological capital into political, cultural and symbolic capitals through the articulation of one's social capital, in hoping that the political capital can in return bring some multiplier effects on economic capital. If crony capitalism in some countries means that the success of a business is dependent on the favoritism that is shown to it by the ruling government in the form of tax breaks, government grants and other incentives; in China it is mainly represented by the social relations with government officials and political power structure, searched by private entrepreneurs or individuals in order to have certain permission, security and stability for their business running. As mentioned above, since the State has also become a particular interests group and controls SOE as its own economic arms, government behaves like an ensemble of capitalists, and normally takes private entrepreneurs or individuals as its competitors. So the Chinese State as a whole is not hijacked by any interests group. On the contrary, all other interest groups in China have interest to approach the State and establish a kind of tributary relationship to buyout their freedom in a market economy. As Weber ever argued, capitalists always prefer to deal with individual power brokers behind the scene, rather than get too involved with the cumbersome democratic process. In such a context, individual officials form their own particular interest group involving their families, relatives, colleagues, and relevant State-owned or private entrepreneurs. Such particular interest circles can be found in almost all strategic fields in China, such as real estates, mining resources, financial and banking, and energy sector. Apparently, the Chinese capitalist development leads to a process of mutual empowerment between the realm of the "market" and that of the "State".

In the essence, the Chinese crony capitalism is characterized by the absolute dominant position of the State as a whole and the dispersed particular social groups of individual officials for personal interests. In traditional Chinese society, academic schooling and examination system was the social mobility channel for ordinary persons to climb up into the bureaucratic system of imperial officials. Today, the rampant business schools in China serve as a platform for its business or even cultural elites to form collusions and alliances with individual officials. A typical example is Cheung Kong Business School in Beijing, founded by Hong Kong millionaire Li Ka-shing thanks to his personal contact with top Chinese political leaders. Cheung Kong Business School charges the highest scholar fees in China but attracts the top executives of Chinese biggest private corporations, in financial industry, real estates industry, entertainment industry, commercial industry and manufacturing industry, as well as famous artists and film actors. The reason of such attraction is the initial strategy of participant recruitment of the School: it first of all targeted senior officials for their programs of MBA and EMBA. On its participant list, there were officials from the People's Congress of China, National Reform & Development Committee, Central Committee of the Communist Youth League, State-owned Assets Administration of Guangdong Province, etc. Participants from business world ever explained their motivation of joining the programs of the School: not for intellectual upgrading and academic achievement, but for accumulation and conversion of personal political and social capital.

5. CONCLUSION

Among mainland Chinese scholars, there is a popular description of the officially advocated “socialism with Chinese characteristics” as a new bottle of old wine. The trademark of the bottle of wine is called “socialism”; the newly made bottle is capitalist as physical framework; and the substantial wine is always Chinese relationship based on its traditional particularistic principle and fermented with heavier taste of self-interest and utility-searching. Apparently, the Chinese capitalism is characterized by a State engagement with opportunist strategy, a market system stylized by networks of personal connections, and a market-based social structure composed by mosaics of social groups for specific interests. China is more than State capitalism, not a market economy ruled by law, has no substantial middle class, and is neither of crony capitalism at macro State level.

In China, the current attributes of State, market and society are all rooted in a stable and resilient structure: the Chinese life-world. With its contingency strategy of pragmatism, this life-world of Chinese sustains its pursuit of material interests, transforms personal social relationships in means of action, and progressively substitutes society with economy. Characteristics as such, it would be difficult to predict that the Chinese capitalism will converge with the Western models, will be cursed to fail, or will prevail as a new model. However, the social consequences of the Chinese capitalism are already serious. For Chinese, if their economic life is more Chinese, their world of Chinese as a society is dissolving. If pragmatism has found a way for China to become a super economic machine during 30 years, can the country use it again to elaborate a strategy for saving its society of tomorrow?

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