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# Property Rights with Chinese Characteristics: A Unique Model for Growth?

Master's thesis in Political Science

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Photo: A group of travelers outside Mao's former residence in 1977. My grandmother is second from the right.

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## **Abstract**

This thesis examines the problem that Chinese growth without explicit property rights causes for orthodox Western development theory. Among the majority of Western economists, there is an emphasis on property rights as a prerequisite for economic development. This is especially true within the field of New Institutional Economics. China has famously lacked well-defined explicit property rights yet has experienced extensive economic growth.

This is a critical case study. It examines an otherwise strong theory through a case where it does not hold up, namely China. It does so by describing the origin of the Western property rights-argument and how it applies to different aspects of property rights. It then compares it to the property rights regime in China to see how China has achieved its success, how it can continue it, and what consequences its success has for development theory.

This thesis finds two major reasons why China has been so economically successful without explicit property rights. The first is that incentives are the key determinant for economic development, not property rights. Property rights may be one factor that can create incentives, but it is not a universal prerequisite for economic development. The second is that the disregard for intellectual property rights on an international level has helped China in catching up with the West technologically.



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## **Introduction**

In the immediate wake of the Cold War, several Western economists hailed Russia and Eastern Europe for their fast, economic shock-therapy transition from communist plan and command to a market economy (Nolan & Wang, 1999:171; Whyte, 2009:375). Deng Xiaoping's careful economic reform without social reform was seen as the antithesis to Yeltsin's "big-bang" approach. The big bang is one wherein the goal is dismantling all elements of central planning and replacing them with capitalist institutions through the privatization of property and enterprises (Whyte, 2009:375; Sachs & Woo, 1997:5). In contrast, the gradual approach involves adopting some elements of market reform in some areas, while keeping much of the institutions connected to central planning for an extended period of time (Whyte, 2009:375).

With the remarkable success of China's economy, compared with the chaos and corruption in Russia, it seems natural to conclude that the gradualist approach should be the preferred path.

Why did China succeed where Russia failed? Did China's approach amount to a gradual embrace of the Western model for economic growth? Or has China followed its own, unique path? Is China's economic success a consequence of having adopted Western capitalist institutions, or have they found their own approach to economic development?

The key to the questions raised above, lies in the discussion of property rights in China. Property rights are deemed essential by most economists, yet China has famously been lacking in this department (Riskin, 2008:37). How is it that they have nevertheless been so successful?

This thesis will attempt to answer the question: How was China able to achieve economic success without having developed explicit property rights?

The thesis consists of five chapters. The first one establishes two schools of Chinese transition: The experimentalist school and the convergence school. It then incorporates some of the scholars who have previously discussed the problem this thesis concerns itself with, and places them in the respective schools. The convergence school represents what I will refer to as the orthodox Western view of property rights, which emphasizes the connection between property rights and economic development.

The second chapter explores the origins of the orthodox Western view of property. It does so by discussing the contributions of several Western philosophers who have added to and shaped this theoretical framework.

In the third chapter, the property rights regime in China is explored and discussed in-depth. This is done in order to compare it to the Western view described in chapter 2. Do property rights in China reflect the notions described by the Western philosophers? And further: Does China fit into their models?

The fourth chapter takes the orthodox view from chapter 2, compares it to the findings in chapter 3, for then to discuss the thesis question further. I attempt to answer where China's growth comes from, and how it can continue. I also discuss which implications my findings in this case study of China have for the orthodox view of property rights. I then draw my conclusions in chapter 5.

# **PART I: PRELIMINARIES**

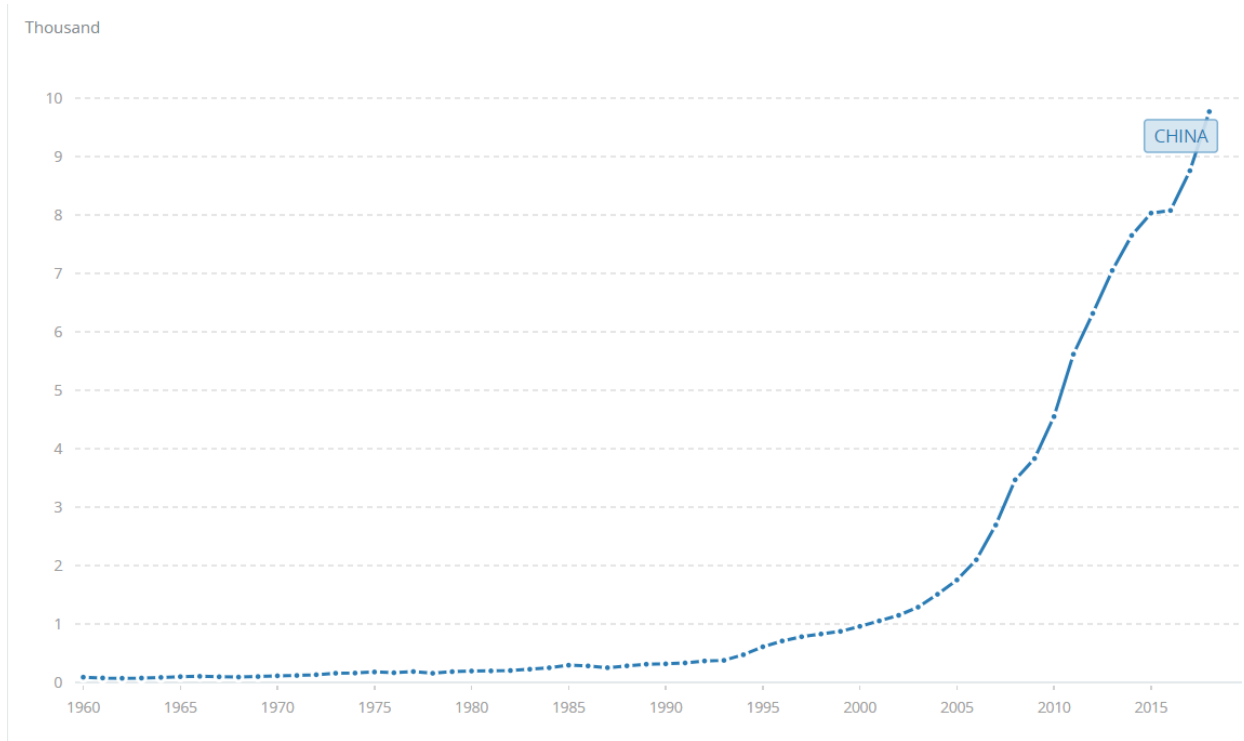
## **Chapter 1. The Question: China's Enigmatic Growth and the Debate About It**

I am not the first scholar to have quarreled with the conundrum that is China's property rights and their relation to economic growth. Several other scholars have explored the same problem. Notable ones that I will discuss in this thesis are Martin King Whyte, Jeffrey Sachs and Wing Thye Woo, Carl Riskin, Martin Weitzman and Xu Chenggang, and Douglass North. Much emphasis is also put upon the work of Daron Acemoglu and James A. Robinson.

This thesis question is based on two premises which I will explore in-depth: That China has achieved economic success and that China has not developed a formal, explicit set of property rights. The first one is not particularly difficult to demonstrate: The rise of China on the back of the economic success it has experienced since the reform era of Deng Xiaoping is historically unprecedented (Allison, 2017: introduction). This drastic growth can be seen in Figure 1, which shows changes in Chinese GDP per capita over time. The graph shows a China which was relatively stagnant during the 60s and 70s. Then in the 80s one can see signs of growth. In the 90s the pace started picking up, and from 2005 and beyond, Chinese growth has been exceptional.

**Figure 1.**

*GDP per capita in China from 1960 to 2018. Numbers on Y-axis are in US dollars.*



Source: The World Bank.

The second premise is more controversial - and more crucial for this thesis. Because if Chinese property rights do not reflect Western ones, the orthodox, liberal property rights theory has a major problem.

### *The question and its stakes*

China's rise from a developing country to a global economic powerhouse is one of the most consequential events of the 20<sup>th</sup> century. It will have a huge impact on the 21<sup>st</sup>. The rapid rise of China has brought with it two major challenges to the West:

(1) Geopolitical challenge: China's economy is larger than the US's at purchasing power parities and is on pace to surpass the US economy in real terms. This has huge implications for the distribution of power capabilities in the international system. This will not be discussed within the scope of this thesis.



(2) Ideational challenge: China's development is a challenge to the hegemony of the Western economic model for development and modernization. In a few decades, China has succeeded in lifting some 800 million citizens out of poverty. Poor countries in the world will be tempted to turn away from the Western, private property-based model of economic development and instead turn towards the Chinese model. My focus will be placed here.

This thesis is a case study of China; however, its analytical focus is directed towards the traditional liberal development theories of the West. I not only seek to answer the question of how did China achieve economic success, but also how it could achieve such success without well-defined property rights?

Two comments are necessary before I move on to the study itself. The first concerns the examination of China. Here the empirical evidence presents a problem. Primary sources are hard to come by, they are written in foreign languages, and the numbers provided by the Chinese cannot be fully trusted.<sup>1</sup> This study will consequently rely on a good deal of secondary sources.

The second comment concerns the method. I will use the case of China to direct a critical eye towards standard theories of economic development – theories that have long dominated the West and which hinge on a claim that property rights is a precondition for sustained economic growth (Weitzman & Xu, 1993:5-7).

This is a critical case study. Such studies come in two basic versions. The first is designed to infirm or refute an established theory. This is done by confronting the theory with a case that it ought to explain but cannot. The second type of critical case study is designed to improve the theory.<sup>2</sup> This is the type used here. This type of case study will begin by confronting a theory

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<sup>1</sup> One of the key challenges in writing this thesis is the lack of trustworthy empirical material from China. A discussion should be had as to what validity one can lay into Chinese numbers and figures. There is little doubt that the Chinese are manipulating their numbers, but questions can be raised as to what extent (Hvistendahl, 2013:1037-1038). Hvistendahl argues that numbers in China are generally not completely falsified. They are rather tweaked or altered in order to present a better picture. Another issue in this regard, is the lack of data itself (Hvistendahl, 2013:1037). Scholars of China are deprived of access to good data, as the data that is gathered by the Chinese (most notably from China's National Bureau of Statistics (NBS)) as the sample selection data method or the complete data at the level of individual respondents, are not revealed (Hvistendahl, 2013:1037).

<sup>2</sup> In their explanation of the critical case study, Moses and Knutsen (2007:134) use the Spanish-American war to critically assess democratic peace theory. They refer to Mark Peceny's study

with a case that it cannot fully explain. In this study, the theory in question is a body of common, Western approaches to economic development. This theory will be applied to an examination of China and demonstrate that it cannot explain China's remarkable economic development. My demonstration hinges on the claim that Western approaches to economic development single out well-defined property rights as a precondition or a cause for significant and sustained economic growth – that without them, no sustained economic growth will take place. China displays fuzzy property rights at best, yet it has grown at a rapid pace for 40 years or more. China, then, represents a case wherein an otherwise strong theory does not hold up. The theory, in other words, has a problem.

### *Two schools of Chinese transition*

How could China grow so fast without well-defined property rights? There are two possible answers to this question. The first is that the question is carelessly formulated, and that China does, in fact, *have* well-defined property rights. Thus, Western development theory is still valid, because China has, in reality, adopted a property-based Western model for economic growth after all. The second answer is that China has not adopted the Western model of economic development; China has followed its own, unique path.

These two answers represent a major dividing line in the literature on China's economic growth. Jeffrey D. Sachs and Wing Thye Woo (1997:1-3) associate the two answers with two different approaches to the question of China's economic development. They refer to them as “the experimentalist” and “the convergence” school of Chinese Transition, respectively.

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“A Constructivist Interpretation of the Liberal Peace: The Ambiguous Case of the Spanish-American War” (Moses & Knutsen, 2007:134, Peceny, 1997). By exploring the one case wherein the otherwise so strong theory does not hold up, Peceny is able to study different aspects of the democratic peace and come up with a new approach: The constructivist one. Peceny's article serves as a reminder that the goal of a case study – just as with any study – is not to confirm your preconceived notions, but rather to search for as factual answers as possible.

The convergence school is in line with the first answer. The adherents of this school of thought consider the institutions in China to converge into ones we are familiar with in the West. Even though at face value they may look different, they operate similar to the Western ideal.

The experimentalist school, on the other hand, believes in Chinese exceptionalism. They consider the institutions that have been developed in China to be unique and that China's success stems from this uniqueness. China, in this view, has created a model for growth that provides challenges to the Western model.

The arguments I present in this thesis are more in line with the experimentalist than the convergence school. I argue that the key to China's growth indeed is related to the uniqueness in their institutions. This uniqueness is foremost present in their approach to property rights. Even though many of the institutions adopted by China after the death of Mao can be considered Western in nature, it is difficult to make this case in regard to property rights. This is especially true in regard to intellectual property rights, I will argue that China's success comes as a result of their approach, and not despite it.

In this thesis I will lean on 4 authors in particular: Sachs and Woo (1997), who makes the distinction between the two schools, and who also are advocates of the convergence school; Douglass North (1973; 2005), who provides the key theoretical notion of this study: the concept of 'economic institutions' and, in particular, the importance of property rights; Acemoglu and Robinson (2012), who, in my estimation, clearly represent the Convergence school, whose argument I intend to criticize, and; Whyte (2009), who represents the Experimental school, which I believe has a better explanatory power when it comes to China's remarkable economic development over the last 40 or 50 years.

### *The Convergence School*

Sachs and Woo discuss the two schools of Chinese transition while situating themselves fully in the convergence school.

### Sachs, Woo and the “Understanding China’s Economic Performance.”

Sachs and Woo argue that the institutions in China in large part are harmonizing with normal market economies. They further contend that this is the result of both internal and external pressure, with China’s quest to join the World Trade Organization being an example of the latter. Sachs and Woo’s view is that China has achieved economic success *despite* their unique set of institutions, rather than because of them (Sachs & Woo, 1997:42). In particular they mention property rights as something China has been able to develop without. They argue that “China’s underdeveloped legal system will be more of a drag on the economy as the complexity of economic life increases, unless legal reform – especially regarding private property rights – can keep pace with economic growth” (Sachs & Woo, 1997:44).

### North and Thomas

Douglass C. North and Robert Thomas’ classic work from 1973 *The Rise of the Western World – A New Economic History* is an important entry into the property rights discussion. They consider the origins of the growth the West experienced from the Industrial Revolution and onwards. However, unlike many others who have attempted explaining the economic success of the West, North and Thomas do not look at the Industrial Revolution, but rather at what underlying features were developed in the centuries leading up to it. In other words, they examine what caused the Industrial Revolution, not what the Industrial Revolution caused.

The book is a key contribution to the field commonly known as New Institutional Economics (NIE). It seeks to identify institutions that were developed in Western Europe which allowed for the Industrial Revolution to happen. One of its key findings is the important role of property rights (North & Thomas, 1973:8, 19, 69-70). North and Thomas see a strong link between the development of property rights and innovation. In this sense, the development of patent laws was paramount, as they guaranteed property right to innovations, preventing theft and free riding, while also making sure the innovator could profit by his actions. (North & Thomas, 1973:152-153). North and Thomas thus argue for the connection between protecting intellectual property and stimulating innovation, which is very relevant for the discussion of property rights in China, due to China’s poor record of protecting intellectual property (Huang & Smith, 2019).

## Acemoglu and Robinson

Acemoglu and Robinson follow North and Thomas. They see property rights as a necessary precondition for economic development. As they formulate it, for an economy to develop, it needs ‘inclusive institutions’ – i.e., it “must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their careers” (Acemoglu & Robinson, 2012a:74-75).

Secure private property is a key criterion for economic institutions to be deemed inclusive. In their discussion of China, they label China’s economic development as “extractive growth”, and they conclude that extractive growth will run out of steam sooner or later. They use the Soviet Union as an example of extractive growth and argue that China is likely to meet the same fate. According to Acemoglu and Robinson, China cannot continue its economic growth if it does not develop inclusive institutions which includes having secure private property (Acemoglu & Robinson, 2012a:438-439).<sup>3</sup>

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<sup>3</sup> Even so, they claim that China’s growth stems from attaining more and more inclusive economic institutions. This means one of two things: either China’s private property is not as insecure as Acemoglu and Robinson describes it, or secure private property is not as necessary for economic growth through inclusive economic institutions. Either way, this showcases the conundrum the case of China poses for Acemoglu and Robinson’s theory. Their “solution” to this is a comparison with extractive growth under the Soviet Union in the 1950s and 1960s (Acemoglu & Robinson, 2012a:439-440). The problem in that respect is that while the growth in the Soviet Union happened under what is clearly both extractive political and economic institutions, China’s growth is happening under extractive political institutions and inclusive economic institutions. In addition, China’s growth has the advantage of coming after the Soviet growth, and China has in turn had the possibility to learn from their communist neighbor’s shortcomings.

Acemoglu & Robinson’s view of inclusive economic institutions is coherent with the convergence view. “Inclusive economic institutions” is basically a label for “what has previously worked in the West.” Thus, the argument that China has achieved its growth through partially adopting such institutions is in line with Sachs & Woo’s description of the convergence school view.

North and “The Chinese Menu” (North 1.0 and 2.0)

In 1973 North and Thomas argued that private property rights were a necessary precondition for the England’s Industrial Revolution in the late 17<sup>th</sup> century.

North pursued the argument in subsequent years. An effort that earned him the Nobel Prize in Economics. Other institutional economists embraced his argument, Acemoglu and Robinson among them. However, North was long reluctant to proclaim property rights a universal principle for growth. After the collapse of the Soviet Union he grew even more careful and, in the end, he finally rejected the universalist proposition.

In 2005 North wrote an analysis of the development aid which rich countries in the North had given to poor countries in the South after the second World War. He noted that immense resources had been poured into the development of poor countries, with few successes to show for the effort (North, 2005). The problem was further enhanced by this period being characterized by an increase in knowledge of political and economic change. Even though the world has become richer and the number of individuals living in poverty has decreased, there are few success stories. As North argues: “[S]ub-Saharan Africa remains a part of the world where per capita income has absolutely fallen, Latin America continues to have stop-and-go development, and the efforts at promoting development by the World Bank have been, to put it politely, nothing to brag about” (North, 2005).

The one country that defies this trend is China. This is why China is such an important critical case in the transition and development debate. Despite having an increased knowledge of the relation between institutions and development, North argues that none of the standard models of economic and political theory can explain China’s growth (North, 2005). North argues that “the Chinese experience should force economists to rethink some of the fundamental tenets of economy as they apply to development.” (North, 2005). He points to two features: “(1) While the institutions China employed are different from developed nations, the incentive implications were similar; and (2) China has been confronting new problems and pragmatically attempting new solutions” (North, 2005).

On the back of this North outlines three lessons of importance. The first is that the issue is not property rights as much as incentives. North acknowledges that property rights are a powerful economic incentive, but opens up for the possibility that there can be other kinds of incentives. The second flows from the first - that there could be many paths towards economic development. The key is to develop “an institutional structure derived from your particular cultural institutions, that provide the proper incentives – not slavishly imitating Western ones” (North, 2005). The third is that the world is constantly changing, and the economic theories that work in one context, may not work in another. The issues countries face today are not the same they faced just half a decade ago, and thus the solutions are not necessarily the same.

North ends his discussion of China by arguing that even though they have partially opened for competitive access to their markets, they are only halfway there (North, 2005). Being a society dominated by a political dictatorship, they face a fork in the road: Will they continue to evolve open-access economic markets and gradually dissolve barriers to open political markets, or will such markets be perceived as a threat by the Chinese Communist Party (CCP), resulting in a halt to the course of the past decades?

Douglass North, then, has written two works that are important to this thesis. The first is the classical *Rise of the Western World – A New Economic History* (written together with Robert Thomas). The second is the article “The Chinese Menu (for Progress)”, in which the institutional argument is refined, and the concept of property rights made relative to time and place. I will refer to these two works as North 1.0 and North 2.0, respectively. They are two different works with different importance for the thesis. It is just as much because I like to think of them as works written in some way by *two different* people. Of course, Douglass North wrote both, I do not dispute that, but I do consider them to be written by two different versions of North, which is why I have made the distinction. Early in his academic career, North seemed adamant that one can identify institutions which can be adopted universally to foster growth and development. However, towards the end of his career, especially with the emergence of Chinese growth, he considered the success of institutions to be determined by their relationship with a country’s pre-existing cultural institutions, and therefore not universally applicable (North, 2005). Acemoglu and Robinson make reference to North 1.0, without taking North 2.0 into account.

### Whyte's "Paradoxes of China's Economic Boom."

Martin King Whyte echoes North 2.0. In a 2009 article for the *Annual Review of Sociology*, Whyte argues that "China's stunning economic performance for the past three decades was not only unexpected but contradicts much received wisdom in the study of development" (Whyte, 2009:371). Whyte, like North before him, stresses the importance of institutions. But he also pays attention to China's traditional culture and the importance of developing institutions that suit the culture in order to foster development.

One has to get the institutions right, notes Whyte (2009:383), and launches into a critical discussion of the so-called "Washington consensus" – the neoliberal approach to economic thinking prevalent in both the World Bank and the United States government at the beginning of the 1990's. The Washington consensus is a list of ten institutions recommended in order to foster economic growth: Fiscal discipline, pro-growth expenditure priorities, tax reform, liberalizing interest rates, a competitive exchange rate, trade liberalization, liberalization toward inward foreign direct investment, privatization, deregulation, and private property rights (Whyte, 2009:383). Whyte, like North (2005), discusses development aid to make his critical point. But he goes further than North: Whereas North wonders whether aid had any effect on the recipient countries, Whyte argues that the aid was positively harmful. He points out that countries that went furthest in implementing the liberal reforms often had worse economic records after the aid than before, and also worse than the countries that did not implement the Washington consensus (Whyte, 2009:383). Whyte's argument is, of course, intensely controversial. However, it clearly suggests that there might not be such a thing as a one-size-fits-all menu for development and that the superiority of neoliberal approaches to economic management may have been a bit hasty.

### *Concluding observations*

There has been a general agreement on the importance of secure private property rights as a prerequisite for economic development within the Western, liberal school of thought. Property rights have a special importance, due to their place in orthodox economic thought. This underpins the relevance of my critical study and the question that it is trying to answer.



The convergence school argues that property is the key. This is evident in both North 1.0 and Acemoglu and Robinson. The view here is that the Chinese growth has occurred despite China's unique property arrangement, not because of it.

The experimental school, however, argues that it is all about incentives. And further: That the unorthodox approach to property rights helps create these incentives. This is in stark contrast to the convergence school, as it implies that China's unique property arrangement has helped spur its growth. Both North 2.0 and Whyte consider property rights as one way to encourage incentives in certain cases, but they argue that there may be others.

Sachs and Woo summarize the different characteristics of the two schools as is shown in Table A. However, as they themselves adhere to one of the schools, it is likely that the points are shifted slightly in their favor. Notice for instance E.2. There are probably several experimentalist writers who believe China's model to be transferable to other transitioning economies, but neither Whyte nor North think so. Their argument is more in the opposite direction, stating that the Chinese example shows that no model is correct in all instances, and thus the Chinese model will not necessarily work in other countries.

**Table A.***Experimentalist school and convergence school.*

<b>Experimentalist school</b>	<b>Convergence school</b>
E.1. Gradualism in market reforms has been key to China's rapid growth.	H.1. China's rapid growth has come <i>despite</i> gradualism, in areas of the economy characterized by radical rather than gradual reforms. China's ability to grow rapidly <i>despite</i> gradual reforms reflects China's particular economic structure.
E.2. China's gradualist strategy is transferable to other economies in transition from central planning.	H.2. China's gradualist strategy is not transferable to Eastern Europe and the former Soviet Union, because of fundamental differences in economic structure.
E.3. China's experiments in non-capitalist institutions are proving to be successful in (a) agriculture; (b) township and village enterprises (TVEs) in the rural areas; (c) state owned enterprises (SOEs).	H.3. China's experiments in non-capitalist institutions are proving to be unsuccessful in (a) agriculture; (b) rural industry; (c) state industry, and are therefore in need of further reform towards more typical capitalist institutions.
E.4. China is evolving towards a unique set of economic institutions, as a result of experimentalism in policy design.	H.4. China is gradually harmonizing its economic institutions with those of East Asian market economies.

Source: Sachs and Woo (1997:4).

Through his review of the state of property rights in China, Whyte shows that the Chinese have not followed the recommended liberal path (Whyte, 2009:385). So, what does he pinpoint as the reasons that China has developed so fast without having secure private property? The key here is the pluralization of the word "reason," as Whyte does not identify one key factor, but rather multiple elements, which together, paint a picture of how China might have achieved their economic success, despite their lack of secure private property. The first factor he identifies is change: That China has consistently been moving towards more privatization, as well as attempting to improve property rights, meaning that in many ways one can argue that China has in large part been faithful to markets and proper incentives (Whyte, 2009:385).

The second factor he points to is "that fairly quickly the prospects of dramatic profits and personal enrichment through private business and the lure of profits to be made by foreign firms in the vast China market reassured potential entrepreneurs and investors that they could recoup

their investments in only a few years” (Whyte, 2009:385). In this sense, the incentive created by large economic gains over a short period of time, outweighs the risk from lack of property rights.

His third and final consideration is that of relative expectations. He argues that compared to a strict socialist economy, where one has no productive property from which one can profit at all, the prospect of even just temporary property and “fuzzy,” imperfect property rights protection, can be enough to foster incentive (Whyte, 2009:386). When looking into a country’s property rights, it is easy to compare it to the ones familiar in the West, rather than compare it to that country’s past situation.

He concludes that based on these arguments, the focus on secure private property rights by many institutionalist writers is misplaced (Whyte, 2009:386). As he puts it: “Having secure rights in my property may do little to foster development if there is no structure of opportunities and incentives in the larger society to induce me to use my property in an increasingly productive way, or if a few established economic actors monopolize available opportunities” (Whyte, 2009:386).

The argument that there is a connection between property rights and economic development belongs to the convergence school. It is an orthodox argument, which experimentalist writers argue does not apply to China, making it at the very least, not a universal phenomenon. This then, begs the question: Where does this argument come from? And who are its proponents? This is what I turn to next.

## **Chapter 2. Terms and Theories: The Western Property Rights Argument and Its Origin**

As this thesis attempts to answer the question of Chinese growth without extensive property rights, it is important to explore where this notion of a connection between property rights and economic development originates, and who its proponents are. This chapter will start off with Acemoglu and Robinson, as they are modern representatives of the orthodox view. I then turn to the development of this school of thought, to see where the Western argument stems from. I begin that section with Aristotle, to show that the argument predates capitalism and liberalism. I then turn to other philosophers who have added on to the argument, shaping and molding it into what one is familiar with today.

This section is relevant as it shows the development of the liberal Western approach to property. In order to discuss the Chinese property rights regime, it is important to be familiar with the origins of the Western argument. Because by comparing the Western argument with the Chinese practice, we may observe where the two differ, and begin to explain why liberal writers such as Acemoglu and Robinson get it wrong.

It is apparent that property is important, as it is given emphasis by both schools of thought. Based on North and Thomas' findings, there has been a general agreement of a connection between property rights and development in the NIE-field. This will be considered as the orthodox view of property rights in this thesis.

Acemoglu and Robinson express the orthodox view. *Why Nations Fail* is not explicitly about institutions and property rights in China. They apply their orthodox argument to several cases, one of these being China. According to Acemoglu and Robinson, property rights are deemed central due to their ability to create incentives. As they put it: "Secure private property rights are central, since only those with such rights will be willing to invest and increase productivity" (Acemoglu & Robinson, 2012a:75).

Since the rapid and sustained Chinese growth has taken place without clearly defined property rights, the Chinese case is a major challenge to Acemoglu and Robinson's theory. They have been given a primary role in this thesis, partly because they have become the poster boys for the liberal approach to institutions and development.

The big debate goes back to the late 1980s, when Soviet premier Mikhail Gorbachev introduced a new policy of openness (*perestroika*) with an eye towards transforming the political economy of the USSR (situated in cell 3 in Table B). The idea was to make the Soviet system a bit more inclusive and thus pull the Soviet economy out of its long-lasting doldrums. However, the old Soviet system could not sustain such reforms, and the entire Soviet Union collapsed in 1991. A new government, led by Boris Yeltsin, took power in Russia, dismantled the communist system, and sped up the reforms. The idea was to apply a shock-therapy to Russia and convert the country into a Western-style political economy (indicated by cell 1), based on multi-party politics and a free-market economy. The result was anything but a success; it was political chaos, a deep economic crisis, with rampant spread of corruption, and the rise of a system of government dominated by a kleptocratic elite. This stands in stark contrast to China, which has experienced sustained growth, the likes of which the world has never seen.

**Table B.**  
*Four categories of institutional organization based on Acemoglu and Robinson’s theory.*

		Political	
		Inclusive	Extractive
Economic	Inclusive	1 Western democracies	2
	Extractive	4	3 The Soviet Union; Mao’s China

Around 1950, Mao’s China and Stalin’s Russia were both in cell 3 of Table B. The USSR remained there until it collapsed around 1990. China, by contrast, did not collapse. Instead it developed from rags to riches in two generations (as seen in Figure 1). The CCP lifted 800 million people out of poverty, catapulted Chinese companies out into the world, and made China a Great Power.

China has retained the primacy of the communist party (CCP). Its political system is still dictatorial, or what Acemoglu and Robinson would call “extractive”. But what has China done to its economy? Has it moved out of the “extractive” category and into cell 2 with a more “inclusive” economy?

But first: What *is* property? Where does it come from? What makes it legitimate? And why is it associated with economic growth? These questions are not easy to answer - although they have been discussed for hundreds of years.

### *What is property?*

Anthropologists make the point that property rights are a general phenomenon rather than a Western invention, but that what is considered to be property rights will differ from country to country and from culture to culture (Von Benda-Beckmann, 1995:309-310). Even though the concept has many variations, scholars often use the term without any discussion into what they mean when using it. This lack of definition raises the question of what is meant by the term “property rights” in the cases where it is used. Are they considering both material and immaterial property? Are they picturing the differences in property rights across cultures, or are they mainly focused upon the usage in a Western industrialized setting? Are they considering that different kinds of property rights can have different implications depending on where a country finds itself in its developmental process?

Property rights are one of the core concepts that societies are organized around. These rights direct who owns what, as well as what one can do with what one owns. Furthermore, property rights are the key to the ideological conflict that shaped the latter half of the 20<sup>th</sup> century. One of the main differences between communism and capitalism is how property is organized. The former mainly has state-owned property, while in the latter, private property is a key feature. This is one of the main distinctions between communist China and capitalist West, so it is only natural that it should be a focal point in the discussion of how an economy should transition between the two. Even more so, since they play a core part in how all societies are organized, property rights should be part of any discussion of how countries should go about achieving economic development.

This chapter begins by going through a couple of basic discussions from the history of economic ideas. I will begin with Aristotle, in order to show that even before capitalism and the academic fields of political economy and market economics, there were authors who asked basic questions concerning property ownership and who developed theories around it.

It is necessary to define “property,” and determine the way it is used in the Western tradition. For if the convergence argument is right, we should expect to see in China a dismantlement of state ownership and the introduction of private property rights.

On the face of it, this is precisely what we see. There has been a steady fall in state ownership in China since the late 1970s. Piketty (2020:607) writes: “The public share of capital was close to 70 percent in 1978, when the economic reforms were inaugurated, but then fell sharply in the 1980s and 1990s, before it stabilized at around 30 percent since the mid-2000s”. It is worth noting that the 30 percent public ownership that marks China’s economy today is only slightly higher than the percentage that marked public ownership in several West-European countries during the 1950s and 1960s.

Property rights are important. The fact that North mentions property rights together with constitutions and laws in his definition of formal constraints helps illustrate the importance property rights play within the NIE-field (North, 2003:175). Western economists consider secure private property rights to be an essential institution for development. It is thought to be the foundation upon which many other institutions base themselves (Acemoglu & Robinson, 2012a:75). The problem is that the concept is hard to define. In the development literature, the effects of private property are noted whereas the concept itself is often not defined at all.<sup>4</sup>

Let us then move on to one of the earliest discussions of property rights in the West: Namely Aristotle.

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<sup>4</sup> When looking at older approaches to property rights, and especially when reading secondary sources, it is important to keep in mind that the texts were written at different times and thus need to be understood in the light of the period in which they were written, and that many of their arguments will be someone else’s interpretations of what the authors actually meant. In that sense, a philosopher’s ideas can be interpreted to represent contrasting notions. An example of this is John Locke, who has been interpreted as an egalitarian by some, while also being labeled as the origin of “possessive individualism” and unlimited capitalist appropriation by others (Henry, 1999: 610). As Alan Ryan points out: “Works outlive their author, and take on lives their writer might be perturbed to see” (Henry, 1999:610). Even with these precautions, it is important to examine earlier takes on property rights, as they have laid the foundation for how we look upon property rights today.

The Ancient Legacy: Aristotle

In *The Politics*, Aristotle considered three possible arrangements of property and its use: (1) property is private, use is common; (2) property is common, use is private; (3) property is common, use is common. This categorization implies a fourth option: Property is private, use is private, but in Aristotle’s view this goes against the very idea of a society. Any friend giving something of his to another, or any generosity at all, falls under the category of private property, common use (Mayhew, 1993:804). Aristotle then, excludes the fourth alternative – that property is private, and use is also private.

Aristotle’s different organizations of property can be summed up in a four-part model, as illustrated in Table C. Notice that Table C has an empty cell in line with Aristotle’s rejection of this possibility.

**Table C.**

*Four types of property organization in Aristotle’s The Politics.*

		Ownership	
		Common	Private
Use	Common	<b>1</b> Aristotle’s “communism”	<b>2</b> Aristotle’s preference
	Private	<b>4</b> Aristotle’s “tragedy of the commons”	<b>3</b>

Aristotle wonders whether private or common property is the best system. He finds himself fully on the side of private property and makes several arguments for its superiority over a more communistic approach to property. He points out that common property is prone to feelings of injustice when some will work less, while also taking more than others (Mayhew, 1993:805). He considers common property to be impractical due to the discontent this causes. However, it is not just impractical in his view, it is also unjust, as he considers justice to be equals getting equal shares and unequals unequal (Mayhew, 1993:806-807).



Aristotle then introduces a key argument:

People are much more careful of their own possessions than of those owned communally; they exercise care over common property only in so far they are personally affected. Other reasons apart, the thought that someone else is looking after it tends to make them careless of it (Aristotle, 1981: 1261b32).

The logic goes as follows: If one shares property with a larger group of people, one will not exert as much effort as one would if one shares with a smaller group, or with no one else, as one in the larger group would expect others to put in less work, and thus would do so oneself. While in a smaller group (or on one's own), one has much more control over what amount of labor is exerted and will therefore make a larger effort.

This makes for a transition in Aristotle's argument. For whereas he first was concerned with justice – with the discontentment and unfairness of a communistic approach to property – he now introduces a discussion of incentives. If one has one's own private property, one will also receive the fruits of one's own labor and will therefore have an incentive to work harder. This is an argument which is often brought up by Convergence School writers such as Acemoglu and Robinson (2012a:75). In this scenario, one will not risk that the result of one's effort will befall someone who has not worked as hard for it.

An example Aristotle uses to describe the difficulties of sharing property is the communities of fellow travelers. When travelling together, one shares a sort of community and thus one shares something in common (Mayhew, 1993:808). Furthermore, travelers might together invest in something to eat or drink, or even share funds. Then there might end up being conflicts as to who ate or drank the most (Mayhew, 1993:808). To Aristotle, this shows that humans do not even need to share property for there to be conflict. Simply sharing the same space could be enough. He therefore concludes that an increase in association leads to an increase in potential conflict (Mayhew, 1993:808). Later theorists have referred to this argument as “the tragedy of the commons”.<sup>5</sup>

Aristotle's discussion of incentives transitions into a treatment of order, crime, and immoral acts – into questions concerning perjury, flattery of the rich, theft, and similar crimes. These can only

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<sup>5</sup> Garrett Hardin (1968) would later popularize this term, using it in a different context: To make an ecological argument.

exist when property is held privately and unequally, Aristotle reasons. If private property were disbanded and all property were held in common, would these crimes disappear? Aristotle answers no. He argues that these crimes are not the result of lack of community, but rather of wickedness, because those who commonly possess property are more often at odds with each other, than those who privately own (Mayhew, 1993:809)<sup>6</sup>. Thus, the communism of property is not the answer, because these injustices are not caused by private property, but rather by wickedness.<sup>7</sup>

Aristotle's writings illustrate that the ideological struggles of the 20<sup>th</sup> century is no new phenomenon. These are issues that are fundamental to human nature. The arguments that Aristotle makes have been key to the Western approach to property rights for over 2000 years. His discussions largely concerned what property *is*, what is fair distribution, and what are the likely consequences of various models of distribution. He did, however, not discuss what it is that makes property legitimate. Other thinkers, who came much later, added to Aristotle's basic understanding by adding entitlement theories. The first of these was added upon the medieval re-discovery of Aristotle.

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<sup>6</sup> In Aristotle's mind there are three reasons for criminal activity: (1) to acquire the necessities in life; (2) to satisfy desires that are beyond what is necessary and; (3) to experience painless pleasures (through for instance tyranny or philosophy) (Mayhew, 1993:809-810). In response to this, he offers three remedies. The first is a minimum amount of property and work, as that will result in no one having to commit crime in order to cover their basic needs. The second is moderation, because a moderate person does not seek more than what is proper. The third is what Aristotle call the philosophical disposition, as this is the greatest of the painless pleasures (Mayhew, 1993:810). Aristotle further argues that most crimes are not committed in order to cover one's basic needs, but rather for the other two reasons.

<sup>7</sup> Another argument that Aristotle faces is the thought that if all property is leveled, then the injustices associated with property will be cured, as nearly all crime is committed in order to acquire the necessities of life (Mayhew, 1993:809). The thought goes that if everyone is ensured that their basic needs are covered, then there would be no reason to commit crime. In response to this, Aristotle challenges the idea that crimes are committed solely to acquire the necessities in life (Mayhew, 1993:809).

### Entitlement: The argument of the Christian Church: Thomas Aquinas

The Church fathers relied on Aristotle in all things – including their views on property. Thomas Aquinas discusses property in his *Summa Theologica* and provides a justification that are entirely in tune with Aristotle.

Aquinas has several arguments that defended private property. One of them goes like this:

“Every man is more careful to procure what is for himself alone than that which is common to many or to all: since each one would shirk the labor and leave to another that which concerns the community” (Aquinas, 1947: Part I-II, Q66, answer 2). This argument echoes Aristotle, as does his next two arguments. First the claim that human affairs “are conducted in more orderly fashion if each man is charged with taking care of some particular thing himself, whereas there would be confusion if everyone had to look after any one thing indeterminately”. Second, the proposition that “quarrels arise more frequently where there is no division of the things possessed” (Aquinas, 1947: Part I-II, Q66, answers 1 and 2).

Aquinas does, however, add an argument to those developed by Aristotle: He writes that “God has sovereign dominion over all things: and He, according to His providence, directed certain things to the sustenance of man’s body” (Aquinas, 1947: Part I-II, Q66, reply to objection 1). Here, Aquinas invokes Genesis and recalls how God created the heavens and the earth and gave men and women “dominion over the fish of the sea and over the birds of the heavens and over the livestock and over all the earth...” (Genesis 1:26). Aquinas, then, introduced a theological entitlement theory, according to which humans have a right to all of creation.

### Acquisition: John Locke and the Labor Theory of Property

For Aquinas, land and capital was legitimately owned because they were given by God. The argument was imprecise and difficult but served until a new and secular theory was introduced towards the end of the 17<sup>th</sup> century by English philosopher John Locke.

The word “property” is mentioned about 150 times in Locke’s *Two Treatises of Government*. This emphasizes the importance property plays in Locke’s theories of governmental organization. Locke uses a wide definition of property (Snyder, 1986:724). He refers to property

as one's "Lives, Liberties and Estates" (Locke, 1690:347). He further argues that "The great and chief end therefore of Mens uniting into Commonwealths, and putting themselves under Government, is the preservation of their Property" (Locke, 1690:346). In this regard, Locke goes further than Aristotle. Property is not only key to the way societies are organized, but the reason for society to exist at all.

One of the main points Locke brings up about property is the connection between property and labor. As he writes:

Though the Earth, and all inferior Creatures be common to all Men, yet every Man has a *Property* in his own Person. This no Body has any Right to but himself. The *Labour* of his Body, and the *Work* of his Hands, we may say, are properly his. Whatsoever then he removes out of the State that Nature hath provided, and left it in, he hath mixed his Labour with it, and joined to it something that is his own, and thereby makes it his Property. It being by him removed from the common state Nature placed it in, it hath by this labour something annexed to it, that excludes the common right of other Men. For this *labour* being the unquestionable Property of the Labourer, no Man but he can have a right to what that is once joined to, at least where there is enough, and as good left in common for others (Locke, 1690:245-246).

Locke argues here that in addition to the property of one's own body, one also has a property right to the labor one exerts. Who exactly has this right in Locke's mind can be put into question, as he later states: "Thus the Grass my Horse has bit; the Turfs my Servant has cut; and the Ore I have dig'd in any place where I have a right to them in common with others, become my property" (Locke, 1690:247). It seems then that the labor of the servant thus does not belong to the servant, but rather to their employer. This then is interesting in the debate between communism and capitalism, as well as the transition between them. If one interprets Locke literally, it seems that he is arguing that a laborer has the right to the produce of that labor, which seems in line with communism. However, what Locke actually means by his labor-induced property theory (or at least what it is commonly interpreted to be), is emphasized by the second quote. That the servant does not own the produce to his own labor suggests that Locke does not have a communistic approach to labor in mind.

What Locke has in mind is a defense of private property. If someone has exerted labor on something and thus removed it from the state of nature, it now belongs to them. Private property then is just as long as that property is gained through the exertion of labor upon nature. An important element to Locke's argument is the part where he writes: "[A]t least where there is enough, and as good left in common for others" (Locke, 1690:246). This implies that such

acquisition is only justified in cases where the property is significantly unused before the labor took place and that there are enough left for others. This raises the question of what happens when there is no more property left unused.

### Transfer and Rectification: Robert Nozick and the Theory of Entitlement

Aristotle, Aquinas and Locke lived in agricultural societies. In their discussions, they had ownership to land foremost in mind. Locke is explicit: The right to ownership is earned by working the soil – mixing one’s labor with an earth that nobody claims and thus earning a right to ownership of it.

Old philosophers like Aristotle and Locke direct attention to important points of principle. However, their discussions are often insufficient as a base for understanding modern societies based on industry and systems of modern finance. In comes Robert Nozick.

Robert Nozick’s work is often considered to be a continuation of John Locke (Held, 1976:169). Nozick made the case for an entitlement theory (Wolff, 1991:9) His theory comprises three main points: (1) A principle of justice in acquisition; (2) A principle of justice in transfer; and (3) A principle of rectification or injustice (Wolff, 1991:9-10). The first principle is based on Locke’s labor theory. It discusses the requirements of private property to be just. The second principle is more controversial, as it involves the transfer of property. This encompasses inheritance, which is a major problem for the Lockean labor theory of property, as it gives individuals the right to the result of someone else’s labor, just because they are related. This is especially problematic in a world where there is not really any unused property left to acquire. The third principle relates to how one can solve instances where property has been acquired in an unjust way and is not particularly relevant to this discussion.

Anthropological research has revealed that there are many different approaches to property. The Western one with inheritance is just one of many. One can make the argument that a system that involves inheritance can be more economically effective, as what one leaves for one’s children can be a powerful motivator. That does not, however, make it a just system.

Even though the common view is that Nozick's work is an extension of Locke, this is not necessarily true. The major difference between the two lies in Locke's view that the acquisition of property is only just where there is enough left for others to acquire. This argument is not considered by Nozick. While Locke argues that the rights of people living now should take priority over inherited title, Nozick contends that persons do not start with equal rights, but rather that some are born rich and powerful and some are born poor and powerless (Held, 1976:170-171). Nozick further argues that those who are born into property are not entitled not to be poor (Held, 1976:171). It is hard to argue why such an entitlement system based on inheritance should be more just than, for instance, one where private property returns to the common upon the holder of that property's death. Even though Locke made his case in favor of private property, he would not necessarily hold the same viewpoint in the modern world, where there is no more property left to acquire. A system where property is centrally owned, for then to be leased out to individuals, like the case is in the Chinese countryside, is probably more just, even when looking through the Lockean lens.

#### Patents: Douglass North and Robert Thomas

Another addition is needed to make this Western model of property rights complete: The importance of patents. Here I return to North and Thomas. While the other writers' focus is mainly on physical property rights, North and Thomas makes the inclusion of intellectual property rights. They identify a connection between patents and innovation (North & Thomas, 1973:152-153). Following this logic, many Western countries have developed strict protection of intellectual property. This has in turn become a key feature of the Western model.

#### *Concluding observations*

This list of philosophers could easily have been longer. It only scratches the surface. But the point here is not to be exhaustive, but rather to identify some elements of the standard Western argument. This is done so that the Chinese property rights regime can be compared with it and deviations identified. If I find that deviations are slight, this strengthens the Convergence school, who argue that China has adopted Western-style institutions. However, if deviations are

substantial, this strengthens the argument of the experimentalist school, who claim that China has invented a new, uniquely Chinese strategy of modernization. Let us take a closer look. What does property mean in China?

## ***PART II: ANALYSIS***

In this section, I will first discuss the concept of property in China. I will look at property rights in both rural and urban areas, as well as placing much emphasis on intellectual property rights. Second, I will engage in a discussion into the causes of China's growth, how they have succeeded, and how they can continue that success. In addition to this, I will discuss the implications this growth has for development theory.

Property rights in China is far from a straightforward issue. During Mao's reign, private property was seized and collectivized. After Mao's death, China entered into a series of reforms, with Deng Xiaoping at the helm, moving them away from cell 3 in Table B (Acemoglu and Robinsons different types of institutional arrangements) and towards cell 2, as the reforms adopted were mainly economic in nature. However, the reforms were complex – and difficult to place into Aristotle's categories of property organization, in relation to North and Thomas' account of pre-industrial England, and Acemoglu and Robinson's development theory. In the rural areas where the family farms were restored, yet still owned by the state, “common ownership, private use” seems fitting. Though as the level of publicly owned property has severely dropped, it is difficult to argue that there is much left of the “common ownership” that characterized China in the Mao-era (Piketty, 2020:607).

There has been attempts at reforming China's property laws since the death of Mao. They are hard to grasp with traditional Western concepts. The theological entitlement theories of Aquinas do not obtain, since China is not a Christian country. The acquisition theories of Locke throw little light on China's reforms, since the territory is densely populated and there is little new land to be cultivated. The transfer arguments of Nozick makes little sense, because land is not a private good or a commodity that can be bought and sold among private citizens in the marketplace. The Chinese property regime is, from a Western point of view, a paradox.

Even though there have been attempts at reforming China's property rights in modern times, they still remain far from the ones in pre-industrial England, described in North and Thomas (Isachsen, 2012:267). The story is complex. First, there are the many waves of reform in China – especially after 1978. The de-collectivization of land ownership, the introduction of township-village enterprises, and the dual-track approach to development are some key ones.



A second complicating factor is this: There are several aspects to property rights in China. A good place to start is with the basic distinction between physical and intellectual property.

Physical property, simply put, includes land and machine capital. Ownership of land is the basis of agricultural production. Ownership of machine capital is the basis of industry. In addition, there is the ownership of ideas, theories, and patents, which furnishes the foundation of a developed, industrial economy. China, as I will turn to later, traditionally has little respect for intellectual property rights. China does not have the same principles for ownership and property as the West.

*Land* was collectivized after the communist revolution. And the CCP has not yielded much of it. Farmland is still in large part owned by the state and is leased out to farmers. At first on a short-term basis, but the lease length later was increased. This state control of ownership has resulted in a very egalitarian distribution of rural property (Riskin, 2008:40).

*Capital* was seized by Mao. Machine capital was concentrated in large, state-owned enterprises (SOEs). The short-term effects were as disastrous for China under Mao as they were for the USSR under Stalin. However, many of Mao's reforms helped to lay the foundation for the emergence of modern China (Hung, 2016:170-173). In addition, what used to be the alternative to the SOEs, the TVEs (township-village enterprises) are collectively owned without any shares determining who owns what (Weitzman & Xu, 1993:2, 9).

In addition, there are *intellectual property rights* – the ownership of ideas. Historically China has been lacking in this regard. And they pay little or no attention to international laws and regulations for intellectual property. The Chinese have regularly been charged with stealing other countries' intellectual property. The problem was addressed in Donald Trump's 2017 National Security Strategy, where it is described thus:

Every year, competitors such as China steal U.S. intellectual property valued at hundreds of billions of dollars. Stealing proprietary technology and early-stage ideas allows competitors to unfairly tap into the innovation of free societies (NSS, 2017:21).

It is not only in regard to foreign companies that intellectual property rights are slim in China. This is also the case domestically. The Japanese writer Yoichi Funabashi has addressed the Chinese attitude to intellectual property rights in his article "Stealing books isn't really stealing", in which he describes the Chinese as having "a socialist approach to ownership ('no one owns

anything’” (Funabashi, 2019). In that sense, every invention or development is a common good for the population as a whole, not only the individual(s) behind the progress. This is a long way from the focus on patent laws in pre-industrial England identified by North and Thomas. It is clear that the state of property rights in China poses a dilemma to scholars claiming the importance of property rights as a requisite for economic development.

### **Chapter 3. China: Property, Incentives and Economic Growth**

The historical look at property rights above is largely a Western one, with Aristotle, Locke, and North and Thomas – even though arguing universally – still writing in a Western setting within a Western context. As anthropologists point out, property rights will vary from country to country and from culture to culture (Von Benda-Beckmann, 1995:309-310). What works in a Western context, may not necessarily work in a Chinese one, and vice versa. It is therefore important to have a closer look at the property rights regime in China.

The premise put forth in the research question is somewhat flawed. As Von Benda-Beckman points out; all societies have had some forms of property rights. However, how encompassing these rights are will vary greatly from society to society. In this context then, it does not make sense talking about having and not having property rights, but rather what those rights entail, and how exactly they differ. As will be argued next, China does indeed have property rights. They might just not necessarily be the ones we are familiar with in the West.

The word “explicit” in the research question is important as it points out the distinction between explicit and implicit property rights. A country - or more precisely, a society - may have a conception of property without it being explicitly expressed. One usually considers property rights to be found in a country’s written laws, but as Weitzman and Xu’s case study of Chinese township-village enterprises illustrates, this may not always be the case.

#### *China’s transitional history (from Mao to Deng)*

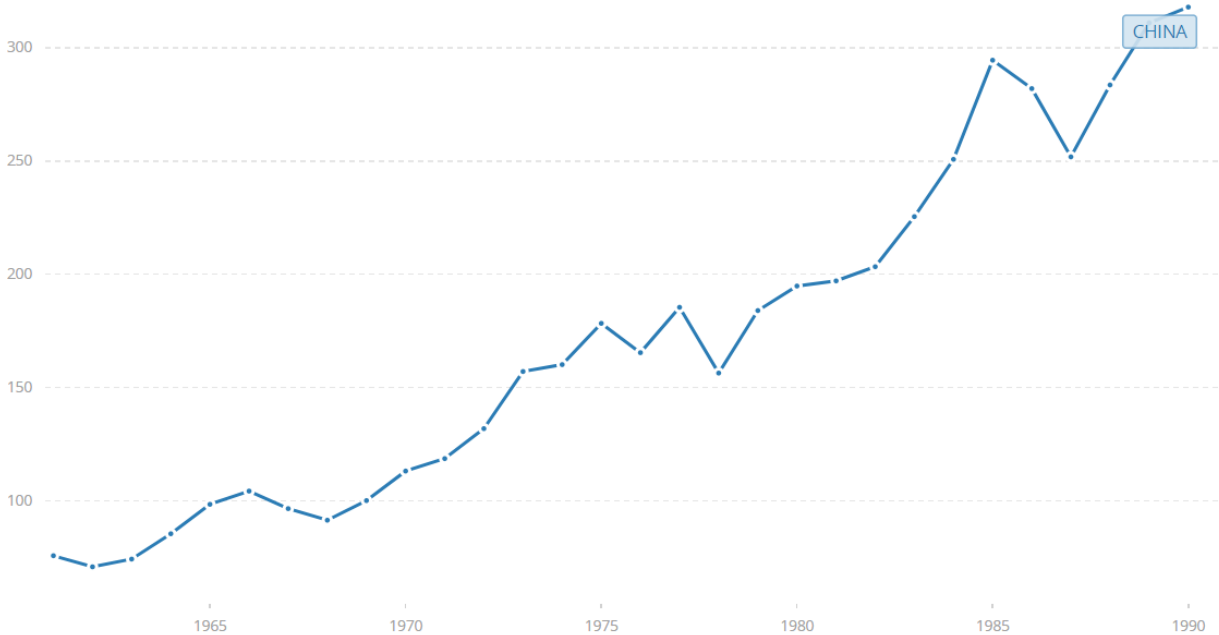
When studying China’s development in the last century, there are two incidents that stand out. The first is when the Communist Party founded the People’s Republic of China in 1949. The second is the market reforms started by Deng Xiaoping from 1978 and onwards. However, there are some who argue that these happenings were not as big breaks in Chinese developments as they are made out to be. Ho-Fung Hung argues:

To be sure, the communists’ seizure of power and Deng’s reform were important events that triggered significant changes in socioeconomic structure, political order, and government policy. But we should not allow our vision to be clouded by these changes so that we neglect the long rise of capital in China (Hung, 2016: 170).

There is some evidence to support the argument that these were not as big breaks in Chinese progress as often thought. Data from the World Bank shows that the growth in GDP per capita began years before Deng began implementing his reforms:

**Figure 2.**

*GDP per capita in China from 1960 to 1990. Numbers on the Y-axis are in US dollars.*



Source: The World Bank.

The growth in Chinese GDP per capita before the mid-90s looks quite miniscule when it is displayed in Figure 1. This is a testament to the enormity of the growth China has experienced since. Figure 2 on the other hand, shows only the period from 1960 to 1990. After a dip towards the end of the 60s, the graph displays a steady growth up until Mao’s death in 1976. This illustrates that the Chinese period of growth started before Deng’s reforms, creating a conundrum for the convergence school and others who only ascribe China’s success to the adoption of Western institutions.

Despite these concerns, it is clear that the latter half of the previous century brought with it much change in China. Many of these changes came as Deng Xiaoping started introducing market reforms. In 1978, about 70% of property was owned by the Chinese state (Piketty, 2020:607). In 2006, their share stabilized at around 30%, where it has pretty much remained since. This illustrates that Deng's reforms have had a major impact on the property structure in China. These numbers suggest that communism in China is something of the past.

Even though the amount of property owned by the Chinese state has drastically diminished since 1978, the Chinese government has never made privatization of property an official part of the national policy (Riskin, 2008:39). Feng Chen argues:

Privatization in China has been carried out in opaque ways, with little regard to the principles of fairness and justice. The government has never made it an official national policy and no national legislation exists to dictate the process. There are only a few government guidelines, which are far from clear and whose enforcement is highly problematic. Local authorities and SOE managers are granted considerable discretionary power to decide how factory property is handled; workers, on the other hand, are totally excluded from the process (Chen, 2006:45).

### *Landed property*

Land was collectivized after the communist revolution. Mao Zedong “tried to completely abolish private property and to initiate a forced march towards collectivization” (Piketty 2020:606).

Chinese agriculture was probably the least affected by the changes after 1978. Farmland is still in large part owned by the state and is leased out to the farmers. This may seem like a way of introducing private ownership while maintaining a communist face (Whyte, 2009:384). Even so, this system has kept the rural property distribution very equal, which suggest there may be more communist elements to this approach than just a face. The major changes in rural property rights since the market reforms have been less security, as many properties have been confiscated by local authorities and appropriated for other usage, and an increase in the length of the leases.

With Deng at the helm, China went through de-collectivization during the 1980s. It saw a return of family farms (Whyte, 2009:384). However, the land they were working did not belong to them but was rather the collective property of the local villages. The farms are leased to local families for several decades at the time. The lease is not to be adjusted during the lifetime of the contract. The leased plots are inheritable through generations. This might seem in line with Nozick's

entitlement theory. There is however a major difference. Inheritance in the Western world came with the major flaw that property historically was drastically unevenly distributed. Inheritance, in this sense, just helps strengthen historical inequality. In the Chinese case, the inheritance of land has been introduced on the back of communist reforms in the countryside. This has resulted in the distribution of property being relatively evenly distributed, despite market reforms (Riskin, 2008:39). In this sense, inheritance is not as problematic, as it is based on a foundation where property has been equally divided. However, the distribution of capital in China is still a cause of major inequality, and inheritance in this regard is still an important issue for discussion.

In addition, the farmers are threatened by a growing number of outside developers who make deals with local officials to repurpose the land for non-farming development. In sum, Whyte concludes, the agricultural property rights in China have not been fully privatized (Whyte, 2009:384). However, in other parts of the rural economy, private ownership is present, for instance in housing, and both private and family-run TVEs (Whyte, 2009:384). This comes with the usual Chinese issue of private property suffering from weak courts and legal institutions (Whyte, 2009:384-385).

Land is owned by the state. In the countryside, it is available for long-term leasing (Whyte, 2009:385). In the cities, the situation is much more complicated. Unlike Eastern Europe's big bang approach to the transition from central planning to free-market capitalism, China had a much slower transition, keeping elements of their communist past long after the initial reforms began. Among other things, this meant that there were certain restrictions on how many employees a private enterprise could hire, as well as constraints on private property for private firms, which were not lifted until 2007 (Whyte, 2009:385).

A further distinction in the realm of property rights that is important in relation to China is the concept of *residual* and *provisional* property right (Goodenough, 1951:34; Schneider, 1961:207-208; Von Benda-Beckmann, 1979:45, 1995:314). There can only be two types of ownership: *full* or *divided* (Schneider, 1961:207). The latter of the two is interesting in relation to China, as property is rented from the government through long-term leases. As such, the property is shared between the leaser and the landowner (the state). In such cases, the landowner has residual rights and the leaser has provisional rights. Von Benda-Beckmann illustrates it with this example: "A, holding the (relatively) most complete right over land, pawns the land to B. In relation to A, B is

the holder of a provisional right, and A the holder of residual right. However, B may give the land to C in share-cropping. In relation to C, B is the holder of a residual right” (Von Benda-Beckmann, 1979:45).

In China then, many citizens (especially in the countryside) will hold provisional rights to their property. In a Western sense, these will often be considered insufficient private property rights, as one does not hold the residual right to one’s property. However, even though having provisional rights in the Chinese sense somewhat limits what one is able to do with the property (for instance selling it on), it does not mean that one’s hands are fully tied in relation to what one can do with it. With the long leases in the Chinese property system, it is highly likely that in order to create incentive, the Chinese way is not far from the Western one. In the end, it is not really about having full rights to the property, it is about what one is able to do with it.

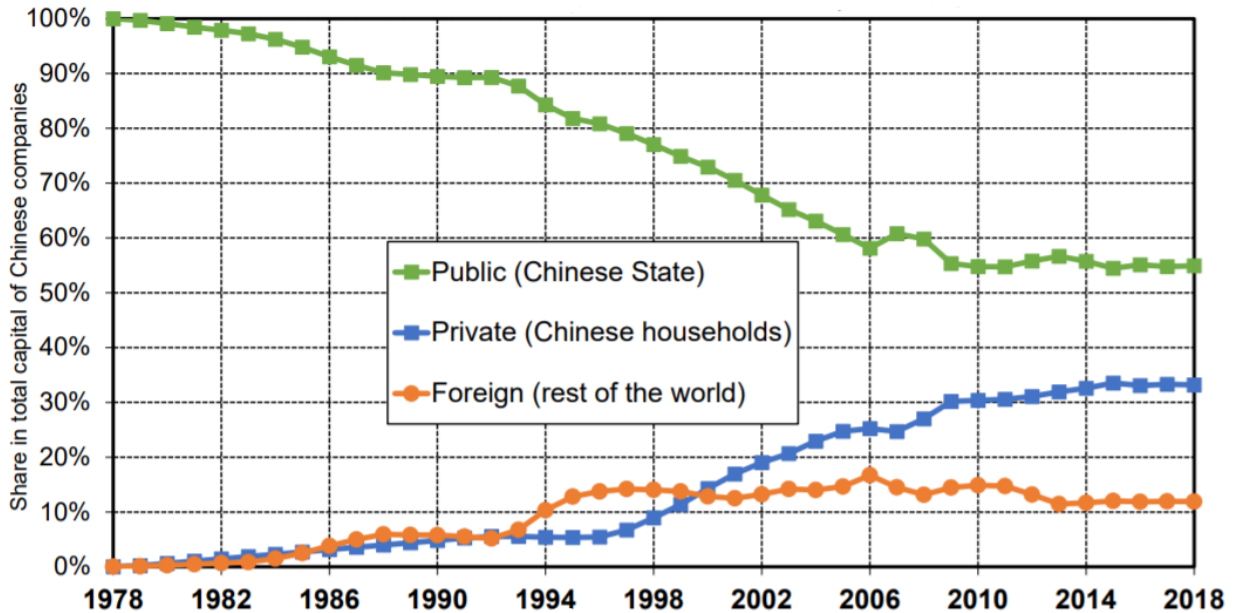
### *Industry*

Private property was abolished by Mao. The means of production were taken over by the state and concentrated in large, state-owned enterprises. Using Acemoglu and Robinsons terminology, this left China with both political and economic extractive institutions, placing them in cell 3 in Table B alongside the USSR. In relation to Aristotle’s different types of property organization, China resided at this point in cell 1.

With Deng came reforms, and China began its journey away from cell 3 in Table B (extractive economic *and* political institutions) and from cell 1 in Table C (common ownership, common use). The share of Chinese firms owned by the state started to drop, and new types of companies entered the stage, most notably the township-village enterprises (TVEs), which became the chief alternative to the SOEs. The TVEs are collectively owned without any shares determining who owns what (Weitzman & Xu, 1993:2, 9).

**Figure 3**

*Ownership of Chinese Firms (1978-2018)*



Source: Piketty (2020:609)

Figure 3 illustrates the decline in state-ownership on the back of Deng’s reforms. When Deng came to power, 100% of Chinese firms were publicly owned. However, as the reforms picked up pace, the percentage started to drop. It kept dropping, especially in the 90s and early 2000s, before it stabilized on a level of 50-60% around 2010. In the beginning the increase in non-public firms was evenly shared between foreign investors and Chinese households. But by the start of the new century, the number of foreign owned firms started to drop off, and the further increase in non-public firms came on the back of domestic privatization.

It must be noted though that, even today, most Chinese firms are publicly owned. This shows that even though China has taken major steps away from their communist past, the legacy of Mao is still present. This is but one of many obstacles to the convergence school claim of a China that follows the Western blueprint. Of course, Sachs and Woo made their claims in 1997, when the trend of privatization was still going strong.

In the 90’s, much of the discussion regarding China’s development revolved around SOEs and TVEs (Nolan & Wang, 1999:169; Weitzman & Xu, 1993:2; Acemoglu & Robinson, 2019:232).



As the SOEs obviously were state-owned, liberal writers attributed much of China's success to the TVEs, as they were deemed closer to the privatized ideal of the West (Weitzman & Xu, 1993:11; Nolan & Wang, 1999:170). However, as Weitzman and Xu point out in their article, the TVEs are more complex than this. They argue that instead, TVEs should be considered as *vaguely defined cooperatives* due to their cooperative nature, lack of well-defined property rights, and diffuse ownership structure (Weitzman & Xu, 1993:2). Even though China changed and the TVEs were almost all gone just a decade later, Weitzman and Xu's findings are still relevant in understanding how property rights work in China (Acemoglu & Robinson, 2019:232).

The gist of their article is that in their research into the nature of the TVEs, they discovered a level of cooperation, counterintuitive to the property rights orthodoxy (Weitzman & Xu, 1993:1-4). The TVEs were local, collectively-owned enterprises, which were located in villages or townships (Weitzman & Xu, 1993:9). Their cooperative nature does not sit well with the traditional view of property ownership. In a scenario with well-defined property rights, the true owners will hold the power, and thus the incentive to create profits. However, in the TVEs there were no shares and no explicit property rights, and thus no majority stakeholder, or clear owner in the traditional Western sense (Weitzman & Xu, 1993:8).

According to Aristotle, a communist system like this should face a challenge, a tragedy of the commons if you will. A tendency for people to be careful with own possessions at the cost of those communally owned. However, since the TVEs were highly successful, they must have found some solution to that particular challenge. While Weitzman and Xu do not give any clear answers into what that solution is, they go far in implying one thing: It is related to culture.

It is hardly controversial to describe the standard property rights theory as one that desires to be universal and culturally independent. Weitzman and Xu describe it in this way: "The theory assumes (explicitly or implicitly) that all people are indiscriminately non-cooperative regardless of their cultural background" (Weitzman & Xu, 1993:3). Ownership, in this sense, is designed to resolve conflicts and facilitate cooperation. The cooperative nature without clear ownership and well-defined property rights, as seen in the TVEs, provides a major challenge to the universality of the traditional property rights view, and in extension to Aristotle's "tragedy of the commons", as their lack of clear ownership and communal nature should theoretically suggest free rider

issues. If there indeed are cultural differences in cooperativeness, as these findings suggest, then that can help explain China's success without having well-developed property rights.

This then goes back to the notion that property rights can exist implicitly. Even though there were no explicit property rights in the TVEs, they still were able to deal with free rider issues (Weitzman & Xu, 1993:20). This suggests that even without explicit laws entitling the workers to their just piece of the pie, there were implicit mechanisms in play. These mechanisms assured workers that they would get their fair share, and further, that others would not be able to achieve a similar share without putting in the work required.

The fact that the TVEs later disappeared, or at least changed from the form they appeared in when Weitzman and Xu described them, suggests that they may not have been as successful as first thought (Whyte, 2009:382; Acemoglu & Robinson, 2019:232). As an extension of this, the cooperative nature that Weitzman and Xu saw, may not have been as impactful as they describe it to be. The fading of the TVEs may not fully be attributed to their failing structure, however, but rather to local governments responses to *some* of them failing. As the competitive field of TVEs became very crowded, eventually a rising portion of the TVEs began to suffer losses, and as a consequence the local governments were given the blame (Whyte, 2009:382). In response to this, the local governments started a process of privatizing, realizing that in that way they could continue profiting from them, without having to take the blame if they failed (Whyte, 2009:382). Thus, the demise of the TVEs was not a result of their cooperative nature, but rather of other societal mechanisms. Unless one can argue that the TVEs' initial success came despite their cooperative nature, and that said nature was what caused their disappearance, Weitzman and Xu's article will continue to be relevant in the discussion of property rights in China.

### *Intellectual property rights*

A crucial distinction in regard to property rights, is the separation between material and immaterial property rights. While material property refers to the physical objects one owns, including land and physical means of production, immaterial property is rather the ownership of ideational phenomena.

When discussing immaterial property, the term intellectual property rights (hereafter IPR) is most commonly used. In a modern setting there are elements that complicate the distinction between material and immaterial property, for instance virtual currency or money stored as numbers in a bank server. However, in most of these instances, one would be able to make withdrawals in physical money, and thus it should be considered physical property. Even so, there are cases like owning virtual copies of games, without owning the physical disk, which showcases the weakness of the material versus immaterial property distinction. This is where IPR comes in as an important term. The example concerning ownership of virtual video games mentioned above would not fall under the IPR category as they are not concerned with the ownership of *ideas* (Boldrin & Levine, 2001:209).

This is one of the key factors I highlight in this thesis. There are two reasons why that is. First, the development of patents was one of the core institutions North and Thomas identified as beneficial for the rise of the West. Second, it is in this area China's property regime has received most criticism, especially from the US.

IPR consists of two components, ideas and control of ideas - where the second component is the more controversial of the two. The first component is the right to own and sell ideas. The second is the right to control what is done with the idea after a sale is made (Boldrin & Levine, 2001:209). The challenge many economists face with IPR is the conflict between incentive and monopoly, wherein the former is generally viewed as a positive economic factor, while with the latter the opposite rings true. For people to come up with ideas and inventions, there is a general agreement that there must be some economic incentive for doing so. This is where IPR through patents, copyright, and similar private contracts, enter the picture, protecting the ownership of the idea or invention and making sure the inventor can profit from it. However, this leads to the issue of monopoly, as patents and similar arrangements hinder competition.

This issue is further complicated in an international setting. Within a country's own economy, protecting intellectual property makes sense, as one would like to promote innovation that can strengthen said economy. But, is another country incentivized to abide by these protections for the first country's inventors? In many cases the answer will be no, as the second country would not profit from the protection of the first country's invention. This is especially true in cases where the first country is more technologically advanced than the second. In these cases, the

second country will benefit far more from infringing on the first country's IPR than they risk losing by the first country doing the same to them. This is strengthened by the first country being less likely to retaliate in the same way, since they already have a strict IPR regime in place. This is one of the key differences between IPR on the national and the international level.

From a more radical viewpoint, this suggests that IPR on an international level helps technologically advanced countries bolster their position, while at the same time hindering less developed countries access to helpful technology and inventions. As developing countries and developed countries differ widely in their ability to do research and generate innovation, it is only natural that the less developed countries will prefer acquisition rather than innovation of their own (Huang & Smith, 2019). It is easy to view such acquisition simply as "theft", but in reality, such acquisition takes many forms. While theft indeed is one of the primary sources of acquisition, others such as trade, foreign investment, licensing, international research collaboration, cross-border movement of experts, and collection of open-source material are also key contributors (Huang & Smith, 2019). Most of these activities are legitimate, and voluntarily engaged in by both parties (Huang & Smith, 2019). China has utilized the full spectrum. However, their IPR infringement receives all the attention.

### *Concluding observations*

This chapter has shown how the property rights differ in different domains of Chinese societal organization. It is clear that the property rights featured in China do not comply with the Western standards showcased in chapter 2. Neither the leases in the countryside, nor the collective ownership structure of the TVEs seem to fit the bill outlined in the Western school of thought. And in relation to intellectual property, China has until recently paid them little heed.

One of the advantages held by China in relation to their somewhat flawed set of property rights is that the trend has always seemed to be going towards more and more secure property (Whyte, 2009:385). Even though private property has been far from as secure as in Western economies, there has not been a huge backlash towards less privatization and less secure property rights (Acemoglu & Robinson, 2012a:437-439; Whyte, 2009:385). Quite the opposite, one has seen a tendency for the Chinese state to move towards more secure property rights (Isachsen, 2012:267;

Whyte, 2009:385). This has been the case both in relation to physical private property as well as intellectual property (Huang & Smith, 2019). Even though there have been several attempts at moving in the direction of more secure property rights, many of these attempts have been blocked and thwarted, among others from the old-school communists in the CCP (Isachsen, 2012:267). Even so, the fact that China has continuously been moving towards rather than against stricter rules protecting private property has undoubtedly helped incentivize private investment and risk taking.

The property rights discussed in this chapter also illustrates a point many scholars overlook: That property rights are no single-unit measure.

Property rights as illustrated by the philosophical discussion in chapter 2, is a complex phenomenon. It involves acquisition, entitlement, and transition to mention a few. It is thus often referred to as a “bundle of rights” (Von Benda-Beckmann, 1995:311). This emphasizes the great variety of more specific forms of property rights that reside under the umbrella term. As a result of the plethora of different aspects of property rights, there often is little sense in using the term without defining what one attributes to it. This is further amplified by cases wherein the lack of one type of property rights can have a negative effect, while the lack of another can be positive. In such cases a clear definition is needed.

Acemoglu and Robinson and Shaomin Li give examples where the Chinese government has interfered with businesses private property rights in a way that has hindered growth (Acemoglu & Robinson, 2012a:437-439; Li, 2004:101-104). It is clear that in these specific instances the lack of secure private property rights has contributed negatively on China’s growth. However, in the case of intellectual property rights, it is also clear that China has been lacking severely (Huang & Smith, 2019; Weightman, 2018). Even so, the lack of strict property rights in this department has in all likelihood been a major positive contributor to China’s economic growth, as it has allowed them to gain access to technology that would otherwise take much more effort to acquire. To then talk of the lack of property rights as a whole, without first separating between physical and intellectual property, is a big simplification – so broad and sweeping as to be misleading.

Similarly, in the Chinese case, the distinction between residual and provisional property is often key. This is because the lack of full ownership will appear rather limiting on paper, and will thus

often lead to writers concluding that the property rights are lacking in an economic development sense. With the long leases common in China, however, just having provisional property rights might not be very limiting at all.

The abundance of variants of property rights is complicating the matter. This is further amplified in the Chinese case, where the property rights are very fuzzy and constantly changing in nature, as the Chinese struggle to find the right approach to development. This is why every entry into the property-rights-in-China discourse has to include a discussion of what forms of property one bases the argument upon, in order to be relevant.

This thesis has so far demonstrated that the property rights regime in China is far from perfect, and thus that the connection between property rights and economic success is (at the least) not universal. It has also ventured through the historical origins of the property rights argument. Furthermore, it has studied the state of property rights in terms of land- and capital ownership, as well as in regard to intellectual property rights. However, it has not yet fully entered the discussion as to where China's success originates from. Demonstrating that the orthodox property rights theory is flawed in the case of China only underpins the thesis question; it does not supply an answer to it. In order to give such an answer, one has to come up with an alternative cause for Chinese growth. This is what I attempt at doing in the next chapter.

## Chapter 4. Discussion: What Has Caused China’s Growth, and How Can It Continue?

This thesis concerns itself with the question of how China has managed its impressive growth without having well-defined property rights. To answer this question, I will discuss the importance of IPR infringement for China in a technology catch-up setting, and the importance of creating incentives regardless of one’s property rights regime. I will also discuss how China can continue its success. Many scholars – including Acemoglu and Robinson – base their critique on arguments concerning the short-termism of Chinese growth.<sup>8</sup> It is, therefore, important not only to discuss how China’s approach to property rights have helped the Chinese achieve economic success in the past, but also how it can help shape their future.

I will end this chapter with a discussion of what the appropriate approach to economic development ought to be. This is the key to this thesis, as this is what is demonstrated through the findings. I set out to investigate the orthodox school of economic transition through the study of property rights in China as a critical case. A discussion is therefore required into what should be the alternative to the orthodox approach.

*How has China achieved its success?*

My answer is twofold: (1) The key is not property rights per se, but rather the creation of *incentives*, and; (2) China has had major technology gains on the back of IPR infringement that have helped immensely in catching up with the West.

### The importance of incentives

The property rights debate is all about *incentives*. When Aristotle discusses the tragedy of the commons, his argument is based on incentives: If someone is sharing property with someone who does not exert much effort, they are less incentivized to work hard themselves. When North

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<sup>8</sup> This begs the question of what is meant by “short-termism”. The Chinese growth has lasted for a long period of time and is not showing signs of stopping. As Riskin notes: “Moreover the ‘short run’ of viability has now lasted three decades” (Riskin, 2008:38).

and Thomas are discussing patent laws in pre-industrial England, they are arguing that such laws give an incentive to innovate. There are of course ones who are more concerned with the justification of property, like Locke and Nozick, but since this thesis mainly deals with the origins of economic development, the justification issue will be put aside.<sup>9</sup>

In North and Thomas' study of the development of Western Europe before the Industrial Revolution, one of their major finds was the importance of property rights (both material and immaterial) in creating incentives for the individual. If one receives the profit from one's labor, whether that is farming, or it is inventing a new machine, one is incentivized to do so, and to do it well. North and Thomas' finds have become commonplace in the NIE-field, and there are few who dispute the connection between property rights and economic incentives.

This is precisely why China is so interesting as a critical case. While many writers in the experimentalist school argue that China's fuzzy property rights have contributed to Chinese growth (for example Weitzman and Xu's through their discussion of property rights in TVEs), the general view in the convergence school is that China's success has come despite their imperfect property rights. In my research though, I have not come across any scholars claiming that China has well-defined property rights. That China's property rights are imperfect – at least compared to the Western standard – is agreed upon by parties on both sides of the argument.

In this discussion, it is important to keep in mind that China in the late 20<sup>th</sup> century is not the same as Western Europe in the 18<sup>th</sup> century. There are cultural and historical differences that should be considered. Weitzman and Xu certainly suggest such a difference when they imply that the Chinese approach is better at eliminating free rider issues, and thus does not require as explicit property rights as in the West. It is also important to note the historical context which the Chinese incentives are viewed in. Compared to the stagnant incomes in the Mao period, the allure of dramatic profits as China's market opened up may have been an incentive enough in itself to stimulate risk-taking. Whyte certainly thinks this way, arguing that the profits were so large that they outweighed the long-term threats to their property (Whyte, 2009:385-386). If this

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<sup>9</sup> The discussion of which property systems are more just, is undoubtedly a very interesting one. But there is not necessarily a connection between a system being just, and its promotion of growth. A plethora of evidence suggest that capitalism has been a successful system in promoting growth in the Western world. Whether it is a just system or not, though, is a much more disputed topic.



is the case, then the importance put into property rights by NIE-writers is somewhat misplaced, as having secure right to private property in itself does not matter much, unless there is a system in place that incentivizes one to do something with it. In contrast, when living in a society where there are plenty of opportunities and incentives to do something with one's property, one is more likely to be entrepreneurial and take risks, even though there is uncertainty connected to the security of the property (Whyte, 2009:386).

### The negative effects of intellectual property rights in an international setting

It is quite ironic that property rights play such a pivotal part in the standard menu for undeveloped countries to develop (as illustrated among other by its key part in the Washington Consensus), whereas little light has been shed on the IPR side of the argument. Allowing less developed countries access to the technology that has helped the West in reaching its high standard of living should be at the forefront of the discussion, but there are few who make this argument. The reason is simple: The protection of Western companies' (notably American ones) interest takes priority. It is evident that the development barrier that IPR causes on an international level, deserves more attention.

It is clear that China has benefitted from its lack of adherence to the international IPR regime. This is made evident by the emphasis placed on it from the US side. However, "theft" through the breach of international IPR is just one of many ways China has acquired technology from the West.

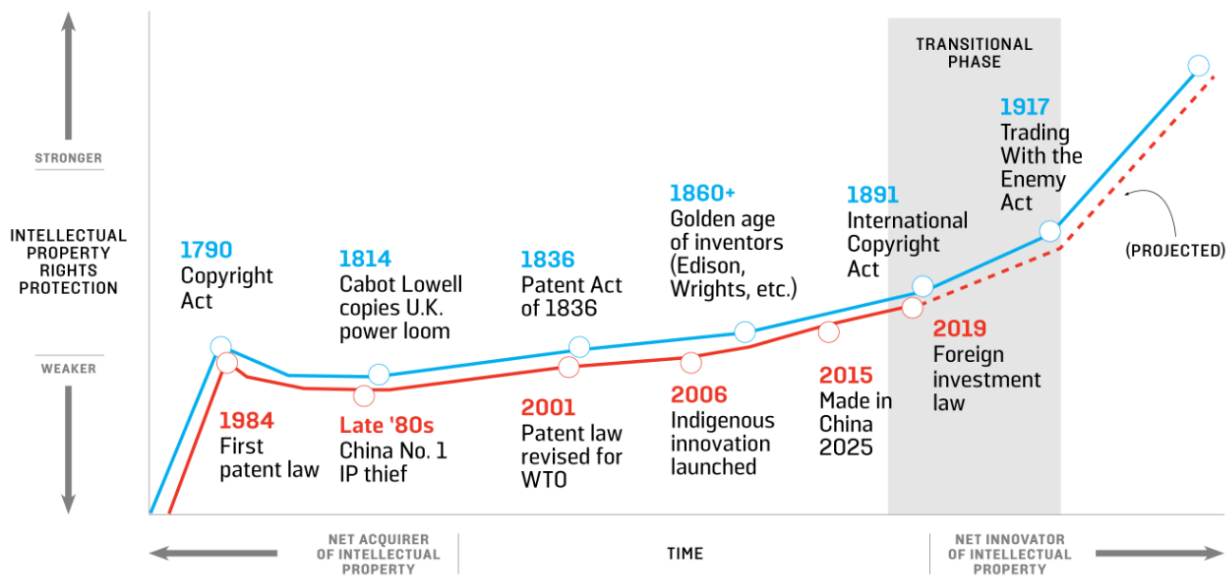
Other sources of technology acquisition have been just as influential. First, trawling the internet to collect open source material has contributed (Huang & Smith, 2019). Second, many Chinese students are enrolled in American universities, thus gaining access to Western knowledge they can bring home. Third, the attractiveness of the Chinese market has induced many Western companies to invest in China, and to cooperate and merge with Chinese firms. This will often allow the Chinese side of the merger access to the technology of the Western side. Similarly, international research cooperation will give Chinese scientists access to the knowledge of Western colleagues. These and other factors have been important in China's acquisition of technology, but they are far from as controversial as IPR breaches such as hacking or stealing.

China's gain from their lack of adherence to IPR is evident on the international stage. However, whether China's lack in this department internally also has been profitable is a more difficult question to answer. There are signs that show that the Chinese have a different approach to IPR than the West (Funabashi, 2019). Even so, the tendency is that China is moving in the direction of stronger IPR as they move from a net acquirer of technology to a net innovator (Huang & Smith, 2019). This is consistent with other countries having taken a similar journey.

The most interesting of these cases is the United States as a rising superpower from the late 18<sup>th</sup> century and onwards (Huang & Smith, 2019). While the US heavily criticizes China for their IPR breaches, a couple of centuries ago, they were operating in a quite similar manner. As the US was struggling to keep up with Europe, they too paid little respect to the ownership of intellectual property.<sup>10</sup> The fact that the US has made a similar journey to the Chinese one, combined with the respective success both countries have experienced, suggests that the lack of adherence to international IPR is a rather prominent strategy for development.

**Figure 4.**

*Graph of US and Chinese development of IPR over time. US is shown in blue, China in red.*



<sup>10</sup> A famous example of this lack of IPR was when Charles Dickens visited the US, only to be infuriated by the number of pirated copies of his works that were distributed around, depriving him from the profits (BBC, 2012)

Source: Huang and Smith (2019).

Figure 4 compares the development in US patent laws in the 19<sup>th</sup> century, with China's in the past few decades. This shows the two nations' similar pathing as they have taken on the journey from an acquirer of IP to a producer. The Chinese case is not unique, and the historical review showcased in Figure 4 shows that the US should look closer at their own IPR-history, before being so critical of China's.

The Chinese case of growth through the lack of adherence to international IPR illustrates the inequality such a system provides. Combined with studies that show little connection between the strengthening of patent protection and innovation (at least not in an international setting), the case for upholding an international system for intellectual property protection seems rather weak (Boldrin & Levine, 2008:192-193). China, though, is not exempt here. As they are moving towards being net producers of technology, they themselves are putting up barriers, restricting others access to their innovations.

Bose et al. (2014:503-505) argue that one can pinpoint a positive effect of property rights on economic development. But this causal arrow can also be reversed: That economic development has a positive effect on property rights. That China is strengthening their IPR as a result of them reaching a level of technology where protecting their own IP has become more important than the acquisition of others', confirms this point. Stricter property rights may not necessarily be the cause of economic development, it may just as well be the result of it.

International IPR protection is probably even more relevant in the field of medicine, where the innovation of new medicines, treatments, and vaccines often have been protected through IPR, restricting other countries' access to them. The high cost of patented pharmaceuticals has been an issue in relation to several epidemics, and most notably in connection to HIV/AIDS in China (Riskin, 2008:41). In the current environment, with a race to find a vaccine for COVID-19, the issue of IPR in the medical field is especially relevant.

### *How can China continue its success?*

In the convergence school the answer to this question is the adoption of more Western institutions. They argue that China's growth is a product of their economic institutions converging into Western ones. However, they point out that this has not yet happened to the political institutions. This is where they see the key to China's future: Adopt Western political institutions, and the economy will keep blossoming. This point is illustrated by Acemoglu and Robinson, who argue that China's growth has occurred on the back of inclusive economic institutions and *despite* political extractive institutions (indicated by cell 2 in Table B). However, they declare, China's growth can only continue if they join Western democracies in cell 1 in Table B, by adopting political inclusive institutions alongside the economic ones (Acemoglu & Robinson, 2012a:441).

China's continued success will not be determined by whether they will be able to establish inclusive political institutions – read: Democracy – as Acemoglu and Robinson argue, but rather by their ability to go from an economy catching up to the US to an economy able to innovate on their own. This is not overlooked by Acemoglu and Robinson, as they argue somewhat similarly in their article “Who Will Rule the World” (Acemoglu & Robinson, 2012b). However, they seem to ignore this in their pursuit of promoting democracy as the key to sustained economic success. In their article, they argue that the race between the US and China for global leadership is a race of innovation. Innovation in their words “is not only the key driver of per capita income growth but also ultimately the main determinant of military and diplomatic leadership – it was the US that proved after Pearl Harbor how a prosperous economy can rapidly increase its military power and preparedness when push comes to shove” (Acemoglu & Robinson, 2012b).

They further claim that the US *probably* will win this race because of their more advanced inclusive political institutions, arguing that they underpin inclusive economic institutions which again foster innovation and investment (Acemoglu & Robinson, 2012b). However, since they argue that China's economic growth is a result of having developed inclusive economic institutions, this implies that it is possible to foster inclusive economic institutions and achieve economic growth, without having inclusive political institutions. This further suggests that the answer to the question of who will rule the world may not be about developing inclusive political

institutions or not, as Acemoglu and Robinson seem to suggest, but more simply about who is the better innovator, regardless of one's political institutions.

That Acemoglu and Robinson put their bets on the United States should not come as a surprise to anyone. Their entire theory bases itself upon the success of Western institutions and to what extent they should be adopted by others in order to move away from poverty. The success of China then, especially without changes to their political institutions would cause their argument to collapse.

China's economic journey has occurred in a catch-up scenario, where they have been lagging behind the developed world, and their key to success has been the acquisition of technology which already existed. This contrasts the rise of China with the rise of the West, as there was no one else to acquire technology from when the Industrial Revolution took place in Britain. It is clear that as China has reached the technological level of the West, there are no countries left from which to acquire technology. Logically then, the Chinese are facing a huge obstacle on their path to continued economic success. Whether or not they will be able to transition into a net innovator will be the key to their success.

There is some merit to Acemoglu and Robinson's favoring of the United States in this regard. After all, as they explicitly point out, the US has done this before. As illustrated by Figure 4, the US has been in a similar position to that of China. They too had to make the transition from a net acquirer to a net producer of technology. When the US found themselves in this position, they were highly successful. However, China's movement towards stricter IPR protection suggests that they have learned something from the United States' success in promoting innovation. In fact, as Huang and Smith demonstrate, the Chinese and US trajectories, though set at different points in history, are remarkably similar (Huang & Smith, 2019). Who is to say that China cannot manage the same transition? There are signs that they are doing exactly that. The World Intellectual Property Organization (WIPO) statistics for 2019, show that for the first time in history, China registered more patents than the US (WIPO, 2020).<sup>11</sup>

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<sup>11</sup> China's drastic measures and quick recovery from the outbreak of COVID-19, despite being the origin of the virus (one can of course discuss how reliable those accounts are), compared with the staggered response of the US, suggest that a strong authoritarian state might have some advantages with dealing with the issues of a modern, globalized world. Just imagine seeing

### *The “correct” path for development*

There is a certain irony to the title of this subchapter, for my argument here is that there is no such thing as a correct path for development. If there is one thing that this critical case study has shown, it is precisely that there is no one-size-fits-all solution to development. China is important as a critical case, in that it shows that attempts at universally applicable theories, like the one Acemoglu and Robinson put forth, fall short. China does not follow the traditional Western blueprint. The evidence here is clear. Even though scholars like Sachs and Woo argue that the Chinese institutions are gradually converging with the Western ones, they still have to admit that China took a completely original path in the first few decades of their transition. It is doubtful that Sachs and Woo and the similarly minded, would have been proponents of an approach like the one China has taken, if they had been charged with staking out China’s course after Mao.

The clearest indicator of China’s deviance from the traditional path is found in their property rights. The fuzzy nature of Chinese property rights makes them quite incompatible with North and Thomas’ findings of the connection between property rights and development. However, arguments can be made that even when leasing property, the provisional right to the property can be enough to stimulate productiveness. Similarly, Weitzman and Xu’s findings in the TVEs suggest the Chinese are better at removing free rider issues in a cooperative setting. Thus, the TVE workers were sufficiently confident in their right to the fruits of their labor, without having a written claim to them. These objections though, do not contradict that property rights in China are not well-defined, but rather strengthen the argument that incentives may play a bigger role than explicit property rights.

The answer to this discussion lies in the distinction between North 1.0 and North 2.0. What North and Thomas wrote in 1973 has often been used to argue for the connection between property rights and development. There are few reasons to suggest that their findings in relation to pre-industrial Western Europe were incorrect. However, that does not mean that one can generalize those findings to all developing countries. My discussion of the difference between the importance of IPR protection in Britain before the Industrial Revolution and in China after

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Chinese citizens out in the streets, protesting being in lockdown. The picture is absurd, yet it is the reality in the United States.

1978 demonstrates this point. Where many scholars go wrong is that they read North 1.0 and draw their conclusions without consulting North 2.0.

The key to development is not adopting a certain predefined menu of institutions, like the Washington Consensus, but rather to find the institutions that work in each given case. These institutions need to be developed in line with their pre-existing cultural institutions. The Chinese approach is therefore not necessarily the key to promoting growth in Russia and Eastern Europe, as Sachs and Woo argue that the experimentalist school believes. The critical case of China's property rights makes clear that there is no such thing as a universal blueprint for economic development. Each country needs to develop institutions that reflect their cultural background in order to succeed. This is the lesson Douglass North learned from China, and it is a lesson all scholars of development theory should learn from.

# ***PART III: CONCLUSIONS***

## **Chapter 5: Concluding Comments**

This thesis has attempted to answer the question of how China has been so economically successful without seemingly having well-developed property rights. There are many different opinions regarding how China has been able to perform so well. Many will point to the Deng-era reforms, but as the data clearly show, the growth period began before Deng came to power. This helps demonstrate the uniqueness of Chinese growth. It is not merely a product of adopting Western free-market institutions, but rather of an interaction between communist and capitalist reforms, playing together with China's own cultural heritage. This is, among other examples, best illustrated in the Chinese countryside, where Mao's legacy is seen in the egalitarian property distribution, while Deng's reforms (and later reforms) can be viewed in the incentives these farmers have to increase their productivity – for instance through the lengthening of their leases.

I argue that two key points have been paramount in creating this success. These also help explain why the Western model fails in relation to China. The first is that property rights are not the key determinant for economic development; incentives are. The Chinese case has demonstrated that the long-held belief that incentives stem from property rights is not universally true. What this means for development theory is that more emphasis should be placed on how incentives can be created in each unique case, rather than how to increase property rights protection. This echoes experimentalist writers like Whyte and North 2.0.

The second is that the disregard for intellectual property rights played a fundamental part in allowing China to catch up to the West technologically. China has successfully been able to acquire technology from the West through several different channels. The most controversial of these has been the infringement of IPR. The reason there has been little light shed on the positive side of IPR infringement, is most likely due to the negative effect it has on Western businesses. This is a point that deserves much more discussion internationally. The West has on the face of it presented a willingness to help less developed countries with their development, while simultaneously denied them access to vital technology. This double moral deserves more attention.



These findings in turn have major implications for development theory. Basing such theory on what worked in the Western world 300 years ago is tragically flawed. Comparing the importance of intellectual property rights in England at the beginning of the Industrial Revolution with the completely different role they have played in allowing China to catch up to the West technologically proves this point. There is no such thing as a universal blueprint for development. The world is changing too rapidly for that to be true. In addition, countries vary greatly in key factors such as culture, population, inequality, and technological advancement for such an approach to be viable. What is needed in order to succeed is to take all these factors into consideration and then adopt institutions that are consistent with the given country's position and culture.

This thesis should not be read as a defense of China and the practices of the CCP. Though many of the Chinese government practices that are under heavy criticism in the West are actually quite favorable among the Chinese, meaning that the social costs received by the Chinese citizens are less extensive than what is perceived from a Western viewpoint, I will not argue that social reform would not have certain benefits in China. My argument, though, is that such reforms are not very impactful on economic growth, and that continued Chinese economic success is not hinged on implementing political inclusive institutions as Acemoglu and Robinson, among others, believe. However, that does not mean that social reform in China would not have other positive attributes.

The Western approaches to property do not fit well with the case of China. Aristoteles four types of property organization does not work too well, as the property rights in China are very fuzzy, and differ from land to capital to industry. Locke's labor theory does not work well either, as most land is already developed and owned by the state, leaving no property for individuals to mix their labor with. North and Thomas' emphasis on patents is simply not applicable to Chinese growth, as it is directly the result of the lack of adherence to them (though as China is becoming a net innovator, they may become more relevant). And lastly, Acemoglu and Robinson and other convergence school writers' focus on inclusive political institutions seem misplaced, as China has experienced 40 years of sustained growth without them. As the Chinese are now registering more patents than the US, showing that they take the transition to net innovators seriously, it is likely that the growth will continue, regardless of the adoption of inclusive political institutions

or not. China has been able to create incentives in their own unique way. It has done it in the transition from central planning to a more market oriented economy. Who is to say they will not be able to do it in the transition from a net acquirer to a net producer of technology?

My arguments so far have been mostly economic in nature. This is due to the Western argument being an economic one. My twofold answer to the thesis question is also economically grounded, as it is the answer to an economic problem. I do not, however, argue that these two elements I have identified, cover the whole picture. There exist a multitude of factors that have (or may have) contributed to creating China's growth. These include, but are not limited to: (1) Having a strong tradition for prioritizing education and the future generations; (2) A historical familiarity with bureaucracy that creates stable expectations with regard to government behavior; (3) Access to more natural resources than many other countries finding themselves in a similar position; (4) A generation of healthy and literate young Chinese (as a consequence of rural educational and health reforms in the Mao-era) ready to work in export-oriented enterprises and TVEs when the market reforms began; (5) A large population size that helped provide a robust domestic market; (6) Political stability; (7) The fact that the era of socialism only lasted for a short period of time, leaving the memories of operating in a market-oriented society relatively fresh in the Chinese minds; (8) A distaste for the effects of socialism due to the chaos caused by the Cultural Revolution (1966-1976), making a transition more popular among the Chinese citizens, and; (9) The introducing of economic reform without the simultaneous introduction of political reform, avoiding the chaos of Russia and Eastern Europe (Hung, 2016:172-173; Fukuyama, 2011:93, 2014:75; Whyte, 2009:386-387). Most of these points are not economic, and it may be that one has to venture outside the world of economics to fully understand Chinese growth.

The Western model cannot explain how China has experienced sustained growth without well-defined property rights. As a critical case then, China has shown that this model is not universally applicable. Thus, the answer must lie somewhere else. I have given two answers that I consider to be key. However, these answers only show how China has been able to *defy* the Western model. To fully understand the success of China, one must look at its history and its culture. China has its own legacy of philosophers, just like the West do. Where the West has Aristotle, China has Han Fei Tzu. It is likely that the answers the Western tradition was unable to supply, can be found in China's own philosophical heritage.

This then should be the focus of further research. As the Western model fails to explain China's growth, we should turn to China's own writers and philosophers. Maybe a better model for explaining Chinese growth can be found here.

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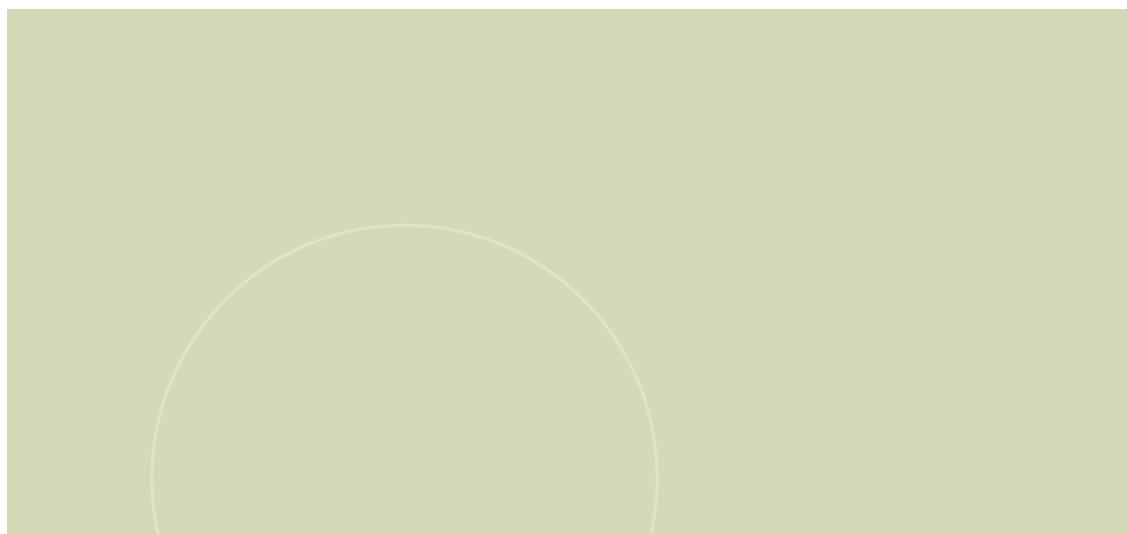
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