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China and India: Globalization with Different Paths

**Joseph Tse-Hei Lee, Satish K. Kolluri
and Pan Zhen**

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Department of Sociology
Hong Kong Shue Yan University
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Occasional Paper Series

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Editors

Siu-Keung CHEUNG
Centre for Qualitative Social Research
Department of Sociology
Hong Kong Shue Yan University
Email: skcheung@hksyu.edu

Joseph Tse-Hei LEE
Center for East Asian Studies
Department of History
Pace University
Email: jlee@pace.edu

Harold TRAVER
Centre for Qualitative Social Research
Department of Sociology
Hong Kong Shue Yan University
Email: htraver@hksyu.edu

Ronald K. FRANK
Center for East Asian Studies
Department of History
Pace University
Email: rfrank2@pace.edu

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Centre for Qualitative Social Research
Department of Sociology
Hong Kong Shue Yan University
10 Wai Tsui Crescent, Braemar Hill
North Point, Hong Kong SAR, China
Tel: (852) 2570 7110
Email: qrcentre@hksyu.edu

Center for East Asian Studies
Department of History
Pace University
1 Pace Plaza
New York, 10038, USA
Tel: (1) 212-3461827
Email: jlee@pace.edu



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Contributors

Joseph Tse-Hei Lee

Professor of History and Co-director of Global Asia Studies
Program, Pace University, USA

Satish K. Kolluri

Associate Professor of Communication Studies, Pace University,
USA

Pan Zhen

Professor and Associate Dean of the School of Business, Nanjing
Normal University, China

Preface

Joseph Tse-Hei Lee

Much attention has been given to the dramatic rise of Indian Prime Minister Narendra Modi as a statesman in the regional and international political theaters since his electoral victory in May 2014. U.S. President Barack H. Obama's latest visit to India in late January was significant because it affirmed Washington's determination to forge an alliance with India against a rising China. After a decade of antiterrorism efforts concentrated on Central Asia and the Middle East, the U.S. has become an active player in shaping the balance of power between China and India.

As ancient civilizations, China and India coexisted in peace for millennia with the Himalayas separating them. Political contacts between ancient China and India were minimal. But culturally Buddhism spread from India to China (and then to Korea and Japan) and this religion completely transformed Chinese society and culture.

As modern nation-states in the late twentieth century, with the exception of the early 1950s, diplomatic relations between China and India were characterized by border conflicts, regional rivalries and strategic competition. Sino-Indian border conflicts resulted from the rejection by Beijing of the British-drawn McMahon Line of 1913–1914 separating India and Tibet, the flight of the Fourteenth Dalai Lama to India after the 1959 Tibetan Uprising, as

well as the dispute following the 1962 border war in which China seized 38,000 km² of Indian territory in Aksai Chin, and another 5,180 km² of northern Kashmir that Pakistan ceded to Beijing under a 1963 pact. China has been keen to avoid confronting a powerful India south of the Himalayas. Outraged by India's support of the creation of the Dalai Lama's exiled government in Dharamsala, Beijing responded by supporting Pakistan in the 1965 Indo-Pakistani War. Throughout the 1970s and 1980s, continuous Chinese arms transfers to Pakistan indicated the close links between Beijing and Islamabad.

The wider Cold War conflict greatly complicated Sino-Indian relations, as shown by the Soviet alliance with India and U.S. support for China from the 1970s onward. Despite the gradual Sino-Indian rapprochement after the visit of the-then Prime Minister Rajiv Gandhi to Beijing in 1988, China refused to sacrifice its strategic partnership with Pakistan. This "two-front threat" (i.e., Pakistan in the west and China in the north and northeast) gave rise to Indian leaders' worries about China's containment policy.

Two security issues have affected the latest development of Sino-Indian relations. One issue has to do with China's concern about the spread of Islamic extremism from Central Asia to Xinjiang. An unstable Pakistan threatens the security of China's western frontier. In May 2009, several identifiable groups with al-Qaeda links attacked Chinese investors and workers in Pakistan. Seeing the escalating instability in Pakistan, China worried about the political vacuum left by the U.S. military withdrawal from Central Asia and the use of Afghanistan as a training ground for Islamic militants in its Xinjiang Autonomous Region.

Another security issue concerns the Chinese naval expansion into the Indian Ocean and Arabian Sea. Since 2013, China has launched a “Maritime Silk Route” initiative to establish a comprehensive system of oceanic ports, harbor infrastructures, and special economic zones in the South China Sea and the northern Indian Ocean. To further protect its lines of communication across the Indian and Pacific oceans, China has constructed new ports, maritime communications, and overland transport routes in Pakistan, Bangladesh, Sri Lanka and Myanmar. In December 2011, China announced it would build an anti-piracy naval base in the Seychelles to counter U.S. maritime power. All these geostrategic efforts were designed to consolidate China’s control over its extensive overland and maritime frontiers.

Indian policymakers always view China as an interloper in South Asia, an external power that challenges India’s natural sphere of influence. As a rising power, China perceives South Asia as a legitimate area for flexing its muscles against India and the U.S. In response to this Chinese encirclement, India has pursued security relations with China’s neighbors in the Pacific Ocean, especially Vietnam, Japan and Taiwan. As the global balance of power is gradually shifting from China to the U.S. and its allies, India will seize the opportunity to counter Chinese influence and reclaim its status as a regional power. Evidently, both China and India have adopted defensive security measures to balance against each other in the wider Asian region.

Against this geopolitical backdrop, this occasional paper has three essays written by professors from Pace University and Nanjing Normal University that address a host of structural

challenges facing China and India in pursuit of sustainable development in the early twenty-first century. Pan Zhen gives a critical overview of China's economic policies, and finds the top-down development model to be fraught with tensions. Joseph Tse-Hei Lee argues that the ability of China to pursue sustainable growth and social betterment is largely contingent upon many circumstantial factors, especially the negative attributes of globalization and the rise of domestic discontents. Satish K. Kolluri shifts the focus of discussion to the electoral victory of Narendra Modi in India, and examines the implications of the rise of Modi in domestic and regional politics.

Taken together, these essays throw light on the political and socioeconomic trajectories of China and India. Since both countries have significantly liberalized their economies in recent decades, the unprecedented expansion of their capabilities and influences is a complex phenomenon, rooted in the context of particular temporal and spatial settings, and the need to accommodate endogenous and exogenous forces of change.

The Change and Development of China's Economic Policies

Pan Zhen

Since China launched its modernization program in 1978, the national economy has experienced an unprecedented level of growth for decades. The top-down policies from the central government constituted a major driving force of development.¹ This article examines the institutional mechanisms and performance of Chinese economic reforms. It highlights some of the challenges in China's quest for sustainable development and provides several policy suggestions to strengthen the country's reform efforts.

China's Reform Policies Since 1978

China's reform policies entailed economic restructuring at six levels. First was the transformation of rural economy. China initially restructured the agricultural sector with cautious experiments in selected locations.² The central government abolished the Maoist system of people's communes built on egalitarianism, implemented the household contract responsibility system, and established a legal mechanism to circulate land among rural residents. Farmers were liberated from the daunting constraints of agrarian work and provided cheap labor for the

township industrial enterprises. Second was the “open-door” policy that set up Special Economic Zones (SEZ) in Shenzhen, Zhuhai, Shantou, and Xiamen to attract foreign investment in 1980. The number of SEZ increased to fourteen coastal cities in May 1984 including Dalian and Qinhuangdao in northern China. During the 1990s, major cities along the Yangtze River like Chongqing and Wuhan, along with thirteen border cities, were opened to foreign trade. This multi-directional and multi-layered strategy was designed to integrate Chinese coastal and inland industries into the global production chain.

The third area concerned the reform of ownership structure. While China vigorously developed the private sector, it established a mixed economic system to accommodate the longstanding form of public ownership. This not only enabled the government authorities of all levels to improve the efficiency of state-owned enterprises, but also provided support to the vibrant private sector.³ The fourth area had to do with the reform of price system. The state controlled the commodity price during the Maoist era. The reform gave rise to a double-track pricing system, enabling the government and market to regulate the supply of goods and services.⁴

Fifth was the reform of financial system. Starting from 1979, the central government broke the monopoly of the People’s Bank of China as the only banking institution in the country, and permitted the formation of commercial banks. It also implemented a system of foreign currency exchange. There used to be a dual-exchange rate system for Chinese currency. Foreigners and overseas Chinese were not permitted to own yuan. They had to exchange their hard currency for the foreign exchange certificates

at the People's Bank of China and redeem them at state-run stores. On January 1, 1994, China unified the dual-exchange rate system to strengthen the economy. The last area concerned the reform of taxation. Under the old taxation system, only the central government was permitted to collect and distribute tax uniformly. The new taxation system allowed the central and local authorities to specify their respective expenses by creating new tax codes. This arrangement gave the local officials incentive to attract domestic and international investment in various development projects. The competition between different regions to attract investment contributed to the reduction of economic gaps between coastal and inland areas.

The Chinese Economic Miracle

The reform policies completely transformed China's economy. From 1978 onward, China experienced continuous economic growth for thirty-five years. The overall gross national income (GNI) increased from 364.52 billion yuan in 1978 to 47.21 trillion yuan in 2011, a growth of almost 130 times. Its gross domestic product (GDP) reached US\$8.36 trillion in 2012, making China the world's second largest economy after the U.S. It had the world's largest foreign exchange reserves, holding a total amount of US\$1.9 trillion in 2008 and US\$3.31 trillion in 2012. Its inward foreign direct investment (FDI) outperformed all the development countries and reached US\$111.72 billion in 2012, making the country the world's second largest market for FDI for the last nineteen years. It was also the largest trading nation in the world, and its total volume of imports and exports reached US\$3.867 trillion in 2012. These statistics confirmed the success of modernization and contributed to China's rise to prominence in

global economy.

Institutionally, China's success owed much to its social and political stability, an integrated system of public and private property rights, and its strong Communist leadership. Ever since the beginning of the modernization, China put in place a system of property rights, welcomed foreign investment, and laid a solid microeconomic foundation for growth. It also redoubled the efforts to deregulate economic rules, embrace more free-market principles, and permit greater autonomy for state-owned and private enterprises. The enterprises took advantage of the cheap and abundant labor force to expand manufacturing, and launched new products and services to compete with one another. The success of the enterprises ensured decades of stability and prosperity.

From the demand side, high investment and foreign trade accelerated China's growth. Local authorities employed pro-business policies, providing investors with cheap land and little environmental supervision. China also adhered to the export-oriented strategy as Japan and South Korea had done. It deliberately kept its currency undervalued and gave subsidies to export-oriented enterprises. Global economy maintained a good momentum of growth before 2008 and created countless opportunities for China. As a result, Chinese export expanded steadily from its entry into the World Trade Organization (WTO) in 2001 to the global financial crisis in 2008, with the compound growth rate of export being over 20%.

Challenges Facing Chinese Economy

The Chinese economy, however, has encountered a series of structural problems, the first one being an inner imbalance of demand and supply. Although the overall consumption, investment, and net exports have increased, the rate of consumption growth is significantly lower than other developed and developing nations. From 1980 to 2011, the rate of consumption growth fell from 65.5% to 49.1% of China's GDP, when the investment rate increased from 34.8% to 48.3%. Worse still, the ratio of private consumption declined sharply, reaching less than 60% of the country's GDP, whereas that ratio in other was about 60%. Another problem is China's heavy dependence on investment. The overall investment rate almost reached 50% of China's GDP, the highest in the world, and the rates of most countries were usually between 30% and 40%. Under the massive economic stimulus policies in 2008, China's investment rate is bound to rise in the coming years. These figures indicate that the Chinese economy has been heavily dependent on foreign trade and high trade surplus. From 2003 to 2008, more than half of China's GDP was driven by foreign trade, and from 2005 to 2007, that figure reached over 60%. Due to the aftermaths of the 2008 global financial crisis, the figure fell down to 43.7% in 2009, but rebound to 50.1% in 2011. In this perspective, China has been extremely vulnerable to any fluctuations in the global economy.

Equally problematic is the unfair distribution system in China. At the beginning of the economic reform, the national government favored pragmatism over ideology. It "gave priority to efficiency with due consideration to fairness" (效率优先, 兼顾公平 *xiaolu youxian, jianggu gongping*) and "let some of the people get rich first" (让一些人先富起来 *rang yixie ren xianfu qilai*). Through tax refunds

and subsidies, the state supported entrepreneurs and middle-class professionals, and tolerated the widening gap between the rich and the poor, and the occasional outbreaks of popular discontent. The percentage of national fiscal revenue grew faster than the overall GDP for many years. After the national taxation system reform in 1995, the rate of government expenses reached as high as 23% of its GDP in 2012.

Shortly after the global financial crisis, the entire world entered a period of structural readjustment. Many countries strove to control trade deficit, and some countries embraced protectionism to save domestic industries. This made it extremely difficult for China to grow its economy by relying on foreign trade.⁵ Moreover, the Chinese system of allocating investment resources was far from perfect. The material returns from massive investment in infrastructure declined sharply, and there was a limited scope for investment-driven growth.

Because of the appreciation of yuan and the rise of labor cost, Chinese export-oriented industries became less competitive. Cheap labor force was used to drive the growth of labor-intensive industries during the 1980s and 1990s. But since 2005, there has been a problem of labor shortage, partly because of a hard-to-reverse trend of demographic decline caused by the one-child policy, and partly because of the limited supply of new labor from the countryside.

Furthermore, more and more local governments could not afford to offer cheap land to attract investment. As the real estate market heated up, the value of the land was astronomically high in the metropolitan cities of Beijing, Shanghai, Guangzhou and

Chongqing, as well as many second- and third-tier cities. Although the real estate development brought in avenues for the local authorities, land expropriation and demolition were costly undertakings. Therefore, many governments in China's southeastern provinces no longer provided the manufacturing sector with cheap land to build factories. In addition, rapid development consumed excessive resources and led to serious unethical business conducts. Pollution, environmental degradation, food safety problems, and business credit abuse troubled everyone.⁶ Despite its spectacular hardware and infrastructure, the development model of China's economy is not sustainable.

Structural Adjustment of the Economy in the 11th Five-Year Plan (2006–2010; 五年计划 *wunian jihua*)

To overcome these obstacles, the central government implemented numerous measures of macroeconomic control. These measures included the simultaneous contraction of fiscal and monetary policies, the control of overheating investment, the continuing appreciation of yuan, the elimination of foreign trade preferential arrangement, the regulation of export-oriented industries, the cancellation of agricultural tax to raise farmers' income, and the tightening of high energy-consuming investment and construction projects. Following the 2008 global financial crisis, the government loosed the constraints on investment, launched numerous infrastructure projects to stimulate domestic demand, and raised the level of consumption through tax cuts. These strategies enabled China to recover quicker than the rest of the world.

Unfortunately, the stimulus policies had shortcomings. They failed to transform the export-oriented economy into a new

growth model. Because a significant portion of the consumption-generated profits came from the stimulus policies, the overall rate of domestic consumption actually declined. In 2009, domestic consumption contributed 45.4% to China's GDP, the highest percentage since 2002. But the consumption activities only pulled 4.1% of the GDP growth, and this was the lowest percentage since 2005. The domestic consumption growth largely resulted from the state's campaigns of purchasing home appliances for peasants, exchanging cash for clunkers, and reducing vehicle purchase tax. Similarly, the rapid increase of China's overall investment rate worsened the problem of structural imbalance. In 2009, the foreign and domestic investment contributed 95.2% to China's GDP and pulled 8.9% of the GDP growth, the highest rate in two decades. Yet, the investment rate began to fall in 2010. During the 11th five-year-plan (2006–2010), China made little progress in adjusting its industrial structure. Economic growth still depended on manufacturing, and there was little expansion in the service sector.

Economic Policies of the 12th Five-Year Plan (2011–2015)

The central government was determined to expand consumption in the 12th five-year plan, focusing on the promotion of employment and entrepreneurship, the increase of urban and rural residents' income, the standardization of a minimum wage, and the institutionalization of a salary raise structure for enterprise employees. These tactics were designed to empower consumers as a means of growing the economy.

With respect to industrial restructuring, the government favored the construction of technological parks, supported seven strategic industries (i.e., environmental industry, new information

technology, biotechnology, new energy, new energy vehicles, high-ended equipment manufacturing, and new industrial materials), and promoted the service sector. In the area of public services, the government sought to equalize the living standards in urban and rural areas, relocate rural residents to cities, and modernize public facilities in the countryside.

This new plan marks a clear departure from the previous focus on urban economic growth. As the central government invests more resources in public welfare and rural development, it formalizes this criterion as a new assessment of the local officials' performance. The aggressive plans to capitalize on emerging new industries may contribute to economic growth, but the old problem of imbalance between demand and supply has yet to be resolved. Urbanization may become a powerful weapon to stimulate consumption and adjust the economic structure.⁷ But the central government has yet to outline concrete plans to make this idea a reality. There have been numerous reports of the local authorities forcing peasants to sell their land below the market price in the name of the urbanization.

Conclusion

This article concludes with four policy suggestions to deepen China's reform efforts. First, the government should reduce its intervention into micro-economy. It should instead push private enterprises and foreign companies to get involved in more industries, and guide state-owned enterprises to carry out their own structural upgrading. In recent years, the economic intervention policies by the central and local authorities betrayed social fairness and market efficiency. The state should employ

fiscal and tax policies to optimize the industrial structure, and assist technologically advanced industries against inefficient ones. It should not impose administrative commands on entrepreneurs and interfere in the daily operation of business enterprises. Meanwhile, the government authorities should eliminate the official monopoly in certain industries and invite private capital to the playing field.⁸

Second, the central government should liberalize the capital market. The marketization of interest rate and the diversification of capital market would enable China to restructure its vast financial service system in urban and rural areas, open access to capital for small businesses, accelerate the development of private financial institutions, and strengthen the supervision of the shadow banking system. The state should regulate the securities market by making it more transparent. A feasible option was to improve the management boards of small and medium-sized enterprises, making them more accountable.

Third, the central government ought to reform the fiscal system, and redefine the financial authorities and obligations of the central and local governments. China should correct the current problem that all levels of intergovernmental property rights and official obligations are asymmetrical. It is not feasible for the central government to receive all fiscal revenues from the local authorities and assume little responsibility toward the citizens. The key is to strengthen the consumption tax as a means of leading the local authorities to push policies beneficial to consumers. Another option is to adjust the individual income tax levy standard in order to alleviate income inequality.

Finally, the government must invest in public welfare, and let the public to have a say in the debate about welfare allocation. China would not necessarily become a welfare state at the moment because the tax burden of its citizens is quite low on average, but they receive limited public services. A nationwide social security system has not been fully established to address the worries of urban and rural residents. Despite the repeated promises to improve people's livelihoods, the government has yet to back their words with actions. In fact, access to public welfare is often determined by one's sociopolitical privilege. The only solution is to implement a fair and equal welfare system for all. This helps transform the current system of compensation welfare into that of general welfare beneficial to all social sectors. Only by doing so will the central government cultivate a sense of economic security among its citizens.

Notes

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China's Economic Reforms at a Critical Junction

Joseph Tse-Hei Lee

Effective management of resources is key to a country's development. This is particularly true for China, which experienced double-digit growth over the last two decades. As China celebrated the 120th anniversary of the birth of former leader Mao Zedong (毛泽东) in December 2013, there has been much discussion about the future of the nation in the twenty-first century.¹ Building on Pan Zhen's critique of the Chinese economy, this article examines some important reform policies that have produced the economic miracle since the 1980s, and highlights a number of governance crises facing the new Communist leadership today.

Historicizing the Chinese Economic Miracle

Since its founding on October 1, 1949, the People's Republic of China was neither a reproduction of the Soviet Union model nor an incarnation of the ancient Confucian empire. The Chinese Communist Party distinguished itself from previous regimes by extending its political power to control society, economy and national culture. The Maoist regime tightened control at all levels, dominating political, social, economic and cultural domains. However, everything changed following a series of important political moments. The most notorious movement was the Cultural Revolution, lasting from 1966 to 1976, that was launched

to activate popular radicalism in support of Mao Zedong, but almost brought down the regime. The state only survived this movement by effectively suppressing the popular outpourings that Mao had encouraged. Since then, communism as a unifying ideology collapsed and pragmatism prevailed under Deng Xiaoping (邓小平) and his successors. Since the 1980s, economic growth has become the people's common hope and desire, and thus the only collective value supporting the legitimacy of the People's Republic.

Under Deng's leadership, the Communist state relied on several institutional mechanisms to create a fast-growing economy. First, China integrated itself into the global economy since the implementation of reform and open-door policies in the 1980s and its entry into the World Trade Organization (WTO) in November 2001. This enabled China to attract foreign capital to modernize its industrial infrastructure, and to apply international business regulations to transform domestic socioeconomic practices.² Second, profitmaking was standardized in every level of the Chinese economy and held as the major criterion for assessing the performance of both state and private business enterprises. The quest for profits gave rise to a strong culture of business competition and this was essential for sustaining China's spectacular economic growth.

Third, there emerged a new entrepreneurial class or what Bruce J. Dickson (2003) calls "red capitalists."³ This class was initially composed of Communist Party leaders and state officials, ex-officials, their relatives and friends, but it took on a life of its own and became a powerful non-state sector with its own agendas. The Chinese state coopted this fast-growing sector by

admitting entrepreneurs into the Communist Party in 2001. As a result, these “red capitalists” had no intention to subvert the one-party state as the West had hoped. Instead they supported the status quo and played a stabilizing role in times of crises. For example, many entrepreneurs donated large sums of money to support the state’s relief efforts in the recent deadly earthquake in the southwestern province of Sichuan (四川) on May 12, 2008.

Fourth, China’s rise to prominence in the world economy increased its influence in global politics, which was dominated by Western nations for the past two centuries. As the U.S. is trapped in two costly military campaigns in Iraq and Afghanistan, China has developed strategic alliances with many developing countries through the Shanghai Cooperation Organization, the Forum on China-Africa Cooperation, the six-party nuclear talks, and the WTO. Giovanni Arrighi argues that the U.S. military campaigns in Iraq and Afghanistan not only undermined the neoconservatives’ imperial project of building a new American century of world dominance, but also made China the true winner of the U.S. “War on Terror.”⁴ Fareed Zakaria calls this development the beginning of “the post-American world,” in which the U.S. retreats, and the rest of the world advances in economic power and political influence.⁵

Governance Crises and Domestic Discontents

Combining a market economy with authoritarian rule, Chinese Communist leaders have adapted certain tenets of capitalism such as opening to foreign investment, deregulating the labor market and building infrastructure, while maintaining firm control over the government, military, public security and media information.

Nevertheless, accompanying China's economic miracle are authoritarianism and domestic unrest. It is important to explore four institutional obstacles confronting the new Communist leadership today.

First, China's rise is fraught with paradoxes and contradictions, and has destabilized domestic politics. As Beijing failed to resolve maritime sovereignty disputes with neighbors like Japan, the Philippines, and Vietnam through peaceful negotiation, many netizens organized protests to express their nationalist sentiments and destroyed foreign factories in China. The waves of nationalism have swept across the country with the public outcry for sanctions against foreign countries and the hostile remarks by commanders of the People's Liberation Army. The widespread "China can say No" attitude has prevented the Chinese leaders from embracing new diplomatic initiatives to solve the territorial disputes.

Second, hostility towards liberal intellectuals, critical journalists, and ethnic minorities continues in China. Imprisonment of Nobel Peace Prize laureate Liu Xiaobo (刘晓波), persecution of Tibetan Buddhists and Uyghur Muslims, and forced exile of dissidents show that the state has tightened its grip upon the citizenry despite its rhetoric of tolerance and compassion. In Chongqing municipality, Bo Xilai (薄熙来), son of revolutionary hero Bo Yibo (薄一波), gained much attention employing Maoist rhetoric and state-sponsored welfare projects for political gain. In Beijing, Zhou Yongkang (周永康), who once controlled the national public security forces, was purged in Xi Jinping's (习近平) anti-corruption campaigns.⁶ With the downfall of Bo Xilai and Zhou Yongkang, the Communist leadership has

demonstrated its awkwardness in resolving the contradictions of both Maoist past and reformist present. Displays of assertiveness and confidence occur, moreover, with rising discontents that inhibit real self-assertiveness. Since the 2008 financial crisis, Chinese leaders have recognized the need to transform its export-led economy into one driven by domestic consumption. Nevertheless, the political crises in the wake of the dismissal of Bo Xilai and Zhou Yongkang, the leadership succession, the anti-corruption campaigns, and the pro-democracy protests in Hong Kong discouraged any officials from tackling these structural problems and experimenting liberal reforms.

Third, the reality of an economic slowdown in China suggests that the Communist leadership can no longer appeal to its people with material incentives. China today has to confront many negative attributes of globalization. Unprecedented growth gave China a temporary reprieve but the national economy has slowed down and the state has yet to offer a sustainable developmental strategy. According to Carl E. Walter and Fraser J. T. Howie, the state refused to transfer power to entrepreneurs and financial professionals, while ruling elites mainly used state-run commercial banks to drive growth that covered up nonperforming debts and distorted the value of bank assets.⁷ Whereas sustainable growth required China's consumers to buy more local products, urging a massive transfer of wealth to the citizenry in order to do so, the state did the opposite by increasing spending on fixed investment. The injection of stimulus money into state-owned enterprises and large infrastructure projects was not sustainable. Since late 2011, many private enterprises have been bankrupt because they lacked the political connections to secure bank loans that could resolve their cash flow problems. Whether or not China

postpones a crisis for the time being, the days of being perceived as the world's economic miracle are numbered.

Finally, market liberalization is a double-edged sword. The rapidity with which the state has achieved growth has created tensions and conflicts at all levels. Extremely efficient and highly urban, China's development has yielded growth rates above those of most developed nations. But its new wealth is unevenly distributed, its labor market ruthless, and its living environment Dickensian. Political scientist Barrington Moore remarked several decades ago, "The tragic fact of the matter is that the poor bear the heaviest costs of modernization under both socialist and capitalist systems. The only justification for imposing the costs is that they would become steadily worse off without it." ⁸ Because of explosive grievances caused by the state's aggressive development strategies and reluctance to liberalize its authoritarian system, a rising China that denies its citizens what they desire—such as job security, healthcare, gender equality and freedom—drives discontented sections of society to mobilize for collective action in order to guarantee security, solace and justice. Popular protest has become a prominent mode of political participation, and the dangers of ineffective governance will be reflected internally. As many as 180,000 strikes, demonstrations and protests were reported in 2010. This is an average of 493 incidents per day. This official figure indicates a dramatic increase from the 90,000 incidents documented in 2006 and fewer than 9,000 in the mid-1990s.⁹ In particular, the railway station massacre in Kunming (昆明) on March 1, 2014 revealed the spread of interethnic unrest from China's far-western Muslim-majority Xinjiang region (新疆) to other parts of the country, and the deadly explosion in Urumqi on May 22, 2014 suggested the increased militancy of some

Uyghur activists against Beijing.¹⁰ The Umbrella Revolution in Hong Kong, a civil disobedience campaign that demanded universal suffrage in elections for the chief executive and legislators, became a major test of crisis management for Xi Jinping. All these obstacles are exacerbated by many explosive factors such as a lack of prosperity, high inflation and unemployment rates, rampant corruption and incompetent government that is devoid of democratic legitimacy. The fear of internal instability may prompt the top leadership to concentrate on stability maintenance rather than external power projection.

Conclusion

Keenly aware of these governance crises, the Communist leaders introduced new policies in March 2014 to continue the reform efforts without hindering growth. These measures permitted the local authorities to resolve financial deficits by issuing bonds, the national currency yuan to fluctuate widely in offshore exchange, and ordinary farmers to buy and sell their land-use rights to urbanities. The central government also adjusted the target of economic growth from 7.7% in 2013 to about 7.5% in 2014, suggesting that the leaders were as much concerned about keeping the rate of growth to reduce unemployment as implementing radical policies that would undermine the country's long-term economic prospects.¹¹

In the final analysis, China is confronting the negative aspects of economic liberalization. As the nation is trapped in a perceptual cycle of popular discontent, time seems to be running out for Xi Jinping to resolve these internal grievances and place the country on the right track.

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⁶ James T. Areddy, Brian Spegele, and James V. Grimaldi, "Chinese Dragonet Entangles Family of Party Luminary," *The Wall Street Journal* (April 1, 2014), p.A1 and A10.

⁷ Carl E. Walter and Fraser J. T. Howie, *Red Capitalism: The Fragile Financial Foundation of China's Extraordinary Rise* (Singapore: John Wiley and Sons, 2011).

⁸ Barrington Moore, *Social Origins of Dictatorship and Democracy* (Boston, MA: Beacon, 1966), p.410.

⁹ Joseph Tse-Hei Lee and Lida V. Nedilsky, "Appeal and Discontent: The Yin and Yang of China's Rise to Power," in Joseph Tse-Hei Lee, Lida V. Nedilsky, and Siu-Keung Cheung (eds.), *China's Rise to Power: Conceptions of State Governance* (New York: Palgrave Macmillan, 2012), p.20.

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Deconstructing the Dramatic Rise of Narendra Modi in the Global Political Theater

Satish K. Kolluri

A New Political Landscape of India

On May 16, 2014, Narendra Damodardas Modi (or NaMo as he is called by his supporters) became the first Indian Prime Minister to be born after independence in 1947. By stating that he was chosen by God and Mother Ganges to fight the dynastic misrule of the Indian National Congress (INC) during his campaign speeches, Modi's scale of victory and the mandate that he derived from the electoral results across the linguistically and culturally diverse states of India stunned his followers and critics alike. The tragic irony of the front page picture of Modi arranging a photo frame of Mahatma Gandhi (1869-1948) in his new office on his first day of work was not lost on the more discerning in that it was Nathuram Godse (1910-1949), a member of the radical Hindu revivalist organization, the Rashtriya Swayamsevak Sangh (RSS; National Voluntary Organization), who assassinated the Mahatma on January 20th, 1948. The very same RSS provided a political home to a young Narendra Modi by inculcating in him the ethos of "Hindutva" or "Hindu-ness" which insists that multi-religious, multicultural, and multiethnic India is fundamentally a "Hindu Rashtra" or "Hindu Nation." The victory of Modi's Bharatiya Janata Party (Indian People's Party) in itself was not a surprise.

Some opinion polls carried out by mainstream media organizations had predicted the number of seats the party that were close enough to the real number of 283, which secured an absolute majority for the BJP.

Predictably the Indian nation went into a celebratory mode and felt immense pride in pulling off the most successful election logistically in the nation's history and in the world's largest democracy even as the secular progressive and left forces suffered one of their heaviest political defeats in recent memory. For some, the fall of the INC-led coalition government brought relief from the dysfunctional and corrupt politics and practices that it symbolized. The Indian media left no stone unturned in joining the celebrations because they were more than responsible for bringing Modi into the living rooms of millions of Indians, not to mention his brand of being a visionary, an economic reformer who would bring in much-needed foreign investment and a proud Indian who will protect small business interests from the predatory behavior of multinational corporations. Modi's prostration on the steps of Parliament on his first ever visit to the building and that too, as the Prime Minister-designate was a perfect 'made for television' moment. The Indian Election was projected to cost US\$5 billion, the most expensive in the country's electoral history and second only to the U.S Presidential Election in 2012 which cost US\$7 billion. "The huge sum marks India's entrance into big-time election expenditures as well as the emergence of sophisticated Western-style campaigning, fund-raising and the domination of social media in politics."¹ In view of the difficult road he had to take in order to evenly remotely appear Prime Ministerial in the minds of the voters and in editorial rooms of mainstream media, Modi, like most well-known rightwing

ideologues of past and present, crafted a clever and brilliant campaign that was as relentless as it was effective when it came to using traditional and social media in a massive publicity and advertising blitzkrieg that softened up his image to an extent, and helped him gravitate from the face of extreme right politics of Hindu cultural nationalism of the RSS to the moderate center-right space that BJP has traditionally occupied. The media bias theory floated by Modi's supporters about how his candidacy was being sabotaged during the campaign by the "anti-Modi" media for his "alleged" role in the Gujarat riots did not hold up to the critical scrutiny of skeptics who argued that the bias itself could have been a strategic construction by Team Modi to play the victim card in order to elicit sympathy from the voting public.²

There is no dearth of critics of Narendra Modi across the world because they have neither been able to forget nor forgive him for the decisions that he consciously took or actions he did not deliberately take, or at the very least take moral responsibility as the Chief Executive of the State of Gujarat. In a chilling response to a question on why the riots in his state had reached such horrific proportions, Modi in an half nod to Isaac Newton (1642-1727) said, "Every action has a reaction." Consequently, the newest leader of the world's largest democracy could not travel to the world's oldest democracy because he was denied a visa to the U.S. by the State Department under George W. Bush in 2002 as he was held morally and legally responsible for presiding over the horrors inflicted on Muslims in a pogrom that was coded as "an experiment" in which the State of Gujarat functioned as the "laboratory." He was reviled and ostracized nationally and internationally except by his own Hindu BJP who accused his critics of demonizing him. Yet, in a span of a decade, Modi has

arrived in a spectacular and surreal fashion as the Prime Minister of India by campaigning on the vexed issues of development and governance and leading his own party to a clear majority in the Indian Parliament, despite receiving only 31 percent of the vote share nationally. This outcome also decimated the INC to an extent that the BJP does not have a coherent parliamentary opposition to launch any meaningful challenge to its legislations and policies. In a brilliant profile on Modi in 2010, Vinod K. Jose deconstructs Modi's personality and politics and reveals his ways of dealing with dissent and disloyalty thus giving new meaning to "the personal is political": "Ten years after the anti-Muslim pogroms that killed more than 1,200 Gujaratis, Modi has managed to bury the past and resurrect his own extinct prospects for political advancement, replacing epithets like "fascist," "mass murderer," and "Hindutva fanatic" with a title of his own choosing: Vikaas Purush, or Development Man."³

Such an electoral mandate will not rid Narendra Modi of the demons that he has repressed anytime soon, a man who is known to be as secretive as he is authoritarian. As the Prime Minister of all Indians irrespective of caste and creed, Modi has much hard work to do ahead to heal the fractures and find political and personal redemption for his misdeeds that were conveniently cleared by the Investigative Agencies appointed by the highest court in the land, even as it became clear that Modi was being projected as the Prime Ministerial Candidate by the BJP.⁴ In response to the "clean chit" given to Modi, activists on the ground, critics and scholars alike produced counterevidence that was damning of the verdict issued by the Supreme Court which refused to listen to any plea in this highly controversial matter.⁵

A detailed documentation of the nexus between the growing radicalization of Gujarat when Modi became Chief Minister and the sources of funding from the Indian diaspora that helped this process was performed by secular progressive groups under the umbrella of a global movement, “The Campaign to Stop Funding Hate” (www.stopfundinghate.org) to combat the insidious propaganda and misinformation launched by the Modi’s machine to dilute the death, suffering, and trauma suffered by Muslims of Gujarat which were bravely captured by noted documentary filmmaker Rakesh Sharma in his gut-wrenching and spine chilling film, “The Final Solution: Gujarat genocide of minorities in India.”⁶

A Critique of Modi’s Campaign Rhetoric: From Self-Rule to Good Governance

It is important to note that during the course of his campaign in 2014, Modi, ably aided by global public relations and advertising firms was partly successful in burying the horrific memories of the Gujarat riots in the national consciousness over time, and reinvented himself as a man who as state’s chief administrator brought about “economic development” through “smart governance.” His simple campaign message “Good days are to come” in the context of the outrage and deep cynicism that voters expressed against the Indian National Congress which ruled India for most of its post-independent history worked extremely effectively. That most of the Indian media had been euphoric about the “Modi-wave” sweeping through the nation is an understatement as it played a proactive role in getting Modi elected as was seen in traditional and social media. Many Indians wholeheartedly subscribed to Modi’s promises of all round economic growth and effective governance, and this advanced this

efforts to apply the “Gujarat model of development” to the rest of the country.

Modi’s cultural roots in the Hindu extremist parent organization of RSS that believes in a “Hindu Rashtra” (Hindu State) make him the first Indian Prime Minister who is openly connected with an organization that emphasizes Hindu-Muslim divisions, and perpetually “others” the latter as second-class citizens because they do not authentically belong to an essentially Hindu nation.

Drawing from Barack H. Obama’s campaign playbook for honing his outreach to voters on social media and proving to be very successful at that, and from the Republican Party for his belief in small government and neo-liberal economic policies combined with the notion of Swadeshi (indigenous economic policies), Modi’s strong messaging and the frequent rendition of his personal narrative of being from a “backward caste” and starting his work life as a tea seller at a railway station, and being a complete outsider to “the establishment of Delhi” in vehement opposition to the politically entrenched and so-called pseudo-secular” Gandhi family, resonated deeply across large swathes of urban, middle-class Indian voters across the nation, who embraced his aspirational “middle-class” story to heart. By winning in a decisive way, some like Santosh Desai who is a social commentator and branding expert gave voice to Modi’s stunning victory at the polls in context:

The politics spawned by Nehruvian liberalism has evoked a simmering sense of rage. For some time now, the self-described cultural mainstream has been seething at what they see as the

contemptuous rejection of their way of life and their ideals by a group that deals in ideas that have no natural cultural resonance with the Indian reality. The fault line is essentially a cultural one—democracy has been seen as a vehicle that has served to impose a new set of ideals with an alien vocabulary on a passive majority.⁷

In attempting to capture the rage and alienation felt by the “self-described cultural mainstream” (i.e., Hindu mainstream) brought about by Nehruvian liberals, Desai represents Modi and Nehru as two sides of a culture war in India, where on the one side, the inheritors of Nehruvian liberalism see themselves as liberals invested in issues like anti-casteism, fair treatment of minorities, and social and economic justice that the socialist-democratic-secular State embodies. Desai’s ambiguous use of “cultural mainstream” finds form in the new India promised by Modi government as “benign majoritarianism, where the majoritarian is imagined not merely in terms of religion but in all aspects of reality as it exists (and) nation as a formulation—the notion of ‘India First’ is shorthand for existing reality with its structure and way of life intact.”⁸

A critical reading of this “benign majoritarianism” is to compare it to a nationalist vision that is not merely bound by the geographical and cultural identity of “Bharat” that not only rejects alien vocabulary, but is marked by a timeless cultural heritage which is central to all religions, languages and castes, and thus constitutes a discourse of cultural nationalism that seeks to “Indianize, Spiritualize, and Nationalize” the nation in the form of Hindtuva that does not practice minority appeasement in the name of “pseudo-secularism” that progressives are accused of,

that actively supports laws that criminalize “sedition” and “homosexuality” or attempts to relegate the figure of the Indian woman to tradition and domesticity by coding her as “the inner or spiritual identity” of the Hindu nation.

Political candidates in democratic elections usually campaign from the extremes to consolidate their political base, and then gradually move to the center in order to appeal to a much larger base, and more importantly, appear to have the ability to govern. During the course of his campaign, Narendra Modi did just that by lacerating the Congress Party’s rule in language that effectively tapped into the rapidly growing negative sentiments about the Gandhi family, which was entrusted the newly independent nation under its first Prime Minister Jawaharlal Nehru (1889–1964). In calling the party a crowd around a family in other words, Modi notes in his campaign speeches: “Congress is a party that has sacrificed the interests of the nation for the interests of one family. To take the country forward is not in the nature of the Congress, it is not in their blood. When we got freedom from the British, we got Swarajya (Self-Rule) and when free ourselves from the Congress, we will get Surajya (Good Governance).”⁹ In an insightful rhetorical analysis of Modi’s campaign speeches, Nonica Dutta explains,

Modi’s language shapes a new political public sphere of power and domination to manufacture consent among his karyakartas (party workers). His rhetoric against the Congress, his model of a “grand state and nation,” his confidence in the “mass base” of his karyakartas, his stubborn faith in development and progress are the recurring themes in his vocabulary. Listening to him one notices that though his script is almost

stereotypically repetitive, his repertoire carries a new gesture each time he speaks. His language is interspersed with humor and sarcasm; but no ironies. With the approaching 2014 general elections, his speech at his premier political organization is full of contradictions, ambiguities, inconsistencies, silences. Modi's language, this may be noticed in almost all his recent speeches, camouflages much than reveals.¹⁰

Brand Modi was successful in convincing the urban middle-class voters and youth that the only way for India to move forward was to recognize that the true meaning of Swarajya (Self-Rule) could only be achieved through Surajya (Good Governance). But the challenges facing India's new Prime Minister are daunting because Modi has to rule against the backdrop of a volatile economy that has not seen the best of times over the past six years. He has to move from campaign mode to governance mode, and confront the inevitable clash between forces of free enterprise and neo-liberalization on the one side, and the role of a socialist welfare state on the other, keeping in mind the acute income inequality that is only getting worse in India and the rest of the world.

Conclusion

In precisely being ambiguous, inconsistent, silent and contradictory about his messaging, be it a simultaneous gesture towards neoliberal economic development on the one hand, and "Swadeshi" (Made-in-India Model) on the other, Modi with his style of authoritarian governance appealed to a critical cross section of voters, ranging from the urban industrialists, entrepreneurs, and rural farming elites to the middle-class

computer programmers and working-class taxi drivers. Millions of Indians voted for Modi irrespective of who their local candidates were.

The marketing of brand Modi was seen as an unprecedented effort in the history of Indian politics, not just in the realm of product marketing, but any form of marketing where it was all about him only. Team Modi that drew technocratic talents from the Indian diaspora left no stone unturned. They were relentless in their selling of brand Modi and by the end of the six month campaign, his team had covered 600,000 villages, almost every urban and semi-urban household, every TV set, cellphone, radio and even social media. They in all constituted the 31 percent of voters in favor of Modi's BJP, and this outcome gave the party a majority in the Parliament, thus ending the practice of coalition dharma in Indian politics for now at least.

Whether Modi will subscribe to the above-mentioned rightwing ideology which constitutes the bedrock of the RSS and its more "moderate" faced BJP in the public sphere, is open to debate. He has formed a small cabinet of twenty-three ministers and out of them, seventeen have political roots in the RSS and there is only one Muslim (woman) in the cabinet who is in charge of Minority Affairs (i.e., Muslim affairs), a gesture of tokenism that slapped irony in the face for some. In asking, "how the king (Narendra Modi) be guided by his raj guru (the RSS)?" the editorial team of the left-leaning *Economic and Political Weekly* concludes:

Narendra Modi is, after all, beholden to both the RSS and big business – *dharma* and *artha* (the latter, the desire to accumulate

material wealth). So it will all depend on how the RSS, the self-anointed spiritual counsellor of the *rashtra*, preserves the *dharma* even as it accommodates the *artha*. The king, in its view, must be guided by the *raj guru* in the preservation of the ideology of Hindutva nationalism.¹¹

Will Modi be a pragmatist by defying his “raj guru” and govern from the political center where he would inhabit a moderate ideological space? Or will he still be a “Hindutvadi” who will reap political and material dividend based on the electoral mandate that he secured to exacerbate the communal divide and income inequality? Only the near future will tell.

Notes

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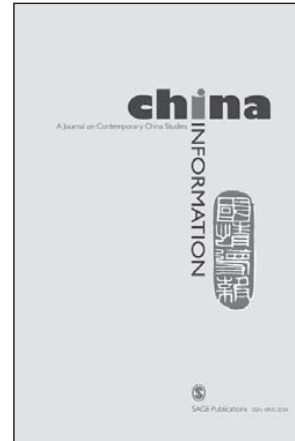
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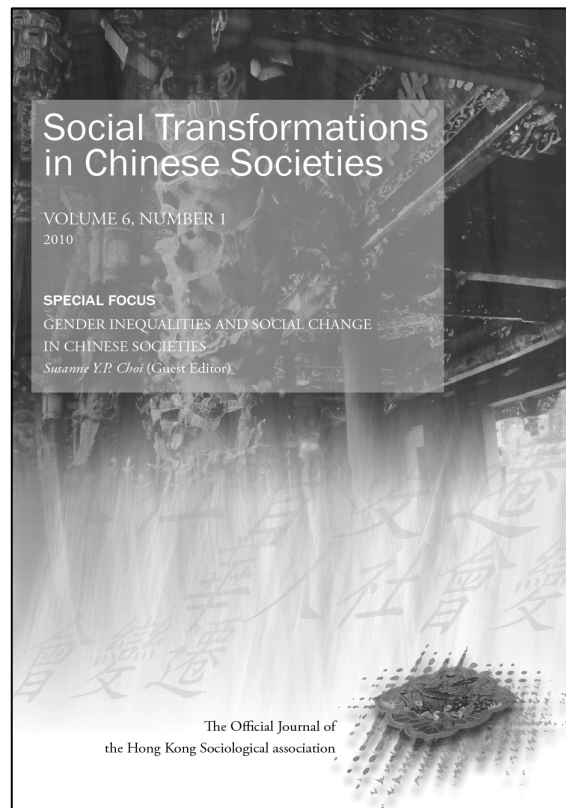
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All submissions will be subject to anonymous review, normally by two reviewers, and the final decision will be made by the Editors.

Marginalization in China: Recasting Minority Politics

Edited by Siu-Keung Cheung, Joseph Tse-Hei Lee, Lida V. Nedilsky

Siu-Keung Cheung is Assistant Professor of Sociology at Hong Kong Shue Yan University.

Joseph Tse-Hei Lee is Professor of History at Pace University, New York.

Lida V. Nedilsky is Associate Professor of Sociology at North Park University, Chicago.

Palgrave Macmillan

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This collection of historical and contemporary accounts of minority formation debunks popular misconceptions about China's highly centralized state and seemingly homogeneous society. Drawing on archival research, interviews, and field work, it documents how state and citizens meet in a politics of minority recognition and highlights China's growing awareness of rights.

Reviews

"Under China's regime of graded citizenship, 'minorities' are variously defined by ethnicity, class, gender and geography. Such state-imposed labels and their marginalizing effects are being vigorously challenged by minority strategies for recognition and rights. The authors of *Marginalization in China* make a compelling case that the struggles of minorities are at the forefront of an emerging Chinese civil society."—Aihwa Ong, Social Cultural Anthropology, University of California, Berkeley

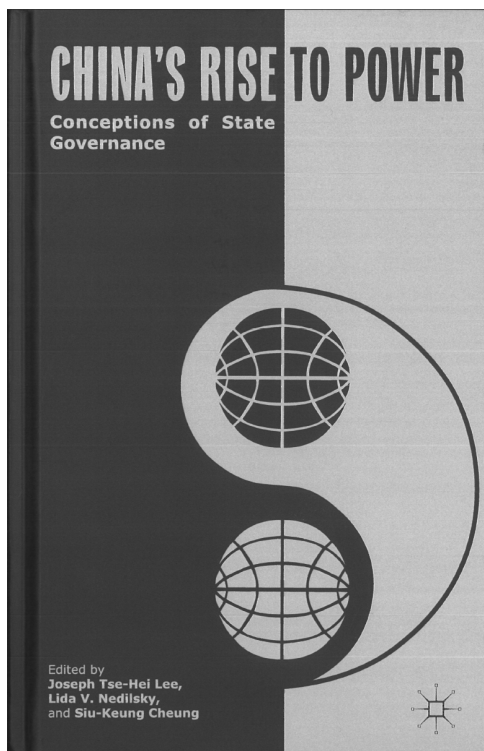
"This book has a diversity of topics and supplies rich detail on a variety of groups in Chinese society. That is what makes it unique."—Merle Goldman, Professor Emerita of History, Boston University and Research Associate, Fairbank Center, Harvard University

"Like every major society in the post-Cold War era, China struggles to find national unity in the midst of ethnic, religious, and regional diversity. This timely new book gives us a fresh look at these struggles, and new consideration of the political, social, and moral challenges they pose. It is especially valuable for providing a historical context for present-day challenges."—Richard Madsen, Distinguished Professor of Sociology and China Studies, University of California, San Diego

"*Marginalization in China* prompts readers to rethink many central issues: how minority groups refashion state-imposed labels; how nation building is shaped by the contention between state structures and indigenous agencies; and how identity formation and interest representation are negotiated along conflicting class, gender, religious, and ethnic lines. This is a rich and thought-provoking book that should be read closely and one that deserves a wide audience."—Tak-Wing Ngo, Leiden University, The Netherlands

"What makes this volume innovative is its rather broad conceptualization of 'minority.' This is one of the first English language volumes to provide a wider analytical gaze at the politics of social marginalization, making an important contribution to the academic discourse on multiculturalism."—James Leibold, Politics and Asian Studies, La Trobe University, Australia

**Joseph Tse-Hei Lee, Lida V. Nedilsky, and Siu-Keung Cheung, ed.,
China's Rise to Power: Conceptions of State Governance (New York:
Palgrave Macmillan, 2012)**



This collection looks at various strategies that China has deployed to project its newfound power in different parts of the world. One such strategy has been the rhetoric of “peaceful development” and “harmonious society,” devised to ease anxieties about China’s global expansion, maintain authoritarian rule at home, and articulate an inclusive identity for its diverse populations. Yet China still faces the problem of effective governance, for coinciding with its economic success is the political awakening of its citizens and with it the rise of organized activism on an unprecedented level.

The ten essays address many contradictions emerging in China’s rise as a global player, all related to the top leadership’s obsession with growth and control. Through case studies ranging from feminism and online activism to ethnic unrest in the Muslim-dominated Xinjiang region, the contributors reveal a society with severe tensions and conflicts, which the one-party state has tried to contain through appeals to harmony. As the new generation of Chinese leaders come of age at this critical juncture, authoritarianism should not be the way out of these internal crises. There lies a chance for the leaders to pursue good governance thinking and practices.

Reviews

“An inspiring, highly diverse yet coherent collection of essays that explores the relationship between state and society in contemporary China. *CHINA'S RISE TO POWER* provides important insights into the strategies employed by the Chinese Communist Party to create an appealing image of its rule, and how various sections of Chinese society are responding to these attempts.”

— Frans-Paul van der Putten, senior research fellow,
The Netherlands Institute of International Relations

“These ten essays cover diverse aspects of the rise of China, all related to the state-sponsored wish for the harmonious society and its opposite, which is discontent. By looking at case studies varying regionally from Xinjiang in the northwest to Macau in the southeast and topically from feminism to memories of a 1900 massacre, the writers suggest a society with enormous and worsening tensions, which authorities attempt to ease and cover up through appeals to harmony. Beautifully edited and with well-chosen and interesting themes, this book is a real contribution to the literature on contemporary China.”

— Colin Mackerras, professor emeritus,
Griffith University, Australia

“This collection of learned essays broadens our understanding of China's rapid transformation in the twenty-first century. These valuable contributions offer fresh perspectives on the contradictions emerging in China's rise as a global player.”

— R. G. Tiedemann, School of Oriental and African Studies,
University of London, UK

Biography

Joseph Tse-Hei Lee is a professor of History at Pace University, New York.

Lida V. Nedilsky is a professor of Sociology at North Park University, Chicago.

Siu-Keung Cheung is an associate professor of Sociology at Hong Kong Shue Yan University.

Reviews

Raymond C. F. CHUI, *Transnationalism and Migration: Chinese Migrants in New Zealand* (July 2008).

“This paper, with its rich empirical data, robust methodology, and strong theorization, should be recommended to all researchers on transnationalism and contemporary migration.” – Prof. Manying Ip, University of Auckland, New Zealand, *Asia Pacific World*

John R. STANLEY, *Christianity and Female Empowerment: The American Presbyterian Mission Schools in Weixian, Shandong Province (1883-1920)* (April 2009).

“This is a modest, informative work that sheds light on the early history of missionary schools that created the foundation for the modern school system in China.” – Dr. Rie Kido Askew, Monash University, Australia, *Asia Pacific World*



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