

*Is China Following the East Asian Model? A “Comparative Institutional Analysis” Perspective**

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Abstract

This paper discusses the main features of the emerging business and economic system in post-reform China. The authors argue that China

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does not seem to follow the so-called East Asian model (or its Japan-Korea variant) and is more likely to evolve directly toward a more open and market-oriented business system that is closer to the Anglo-American model.

This argument is based on the analysis of several aspects of the Chinese economy. First, in terms of corporate governance of the listed companies in China, the proportion of insiders is very small and outsiders' voices are heard, and the stock markets are developing very fast. Second, in terms of bank-firm relations, Chinese banks are not allowed to own shares in firms, thus maintaining an arms-length relationship as in the Anglo-American system. Third, flexibility in the labour market has also been increasing with dismissal of workers becoming much easier than in earlier times. Fourth, domestic markets are competitive, owing to the strong presence of foreign-invested companies. Finally, it is not easy for the central government to implement selective industrial policies, given the conditions set for the WTO membership and those more generally to do with globalization, the huge size of the economy tempered by active inter-provincial politics, and the considerable presence of foreign companies.

These features of the Chinese economy differ from the features of the Japan-Korea model, which include close bank-firm relations, the strong influence of insiders, slow development of the stock market and bank-based financing, rigid labour markets, monopolistic domestic markets with little presence of foreign firms, and selective industrial policy.