

Gradualism and Structural Adjustment in the Chinese Political Economy

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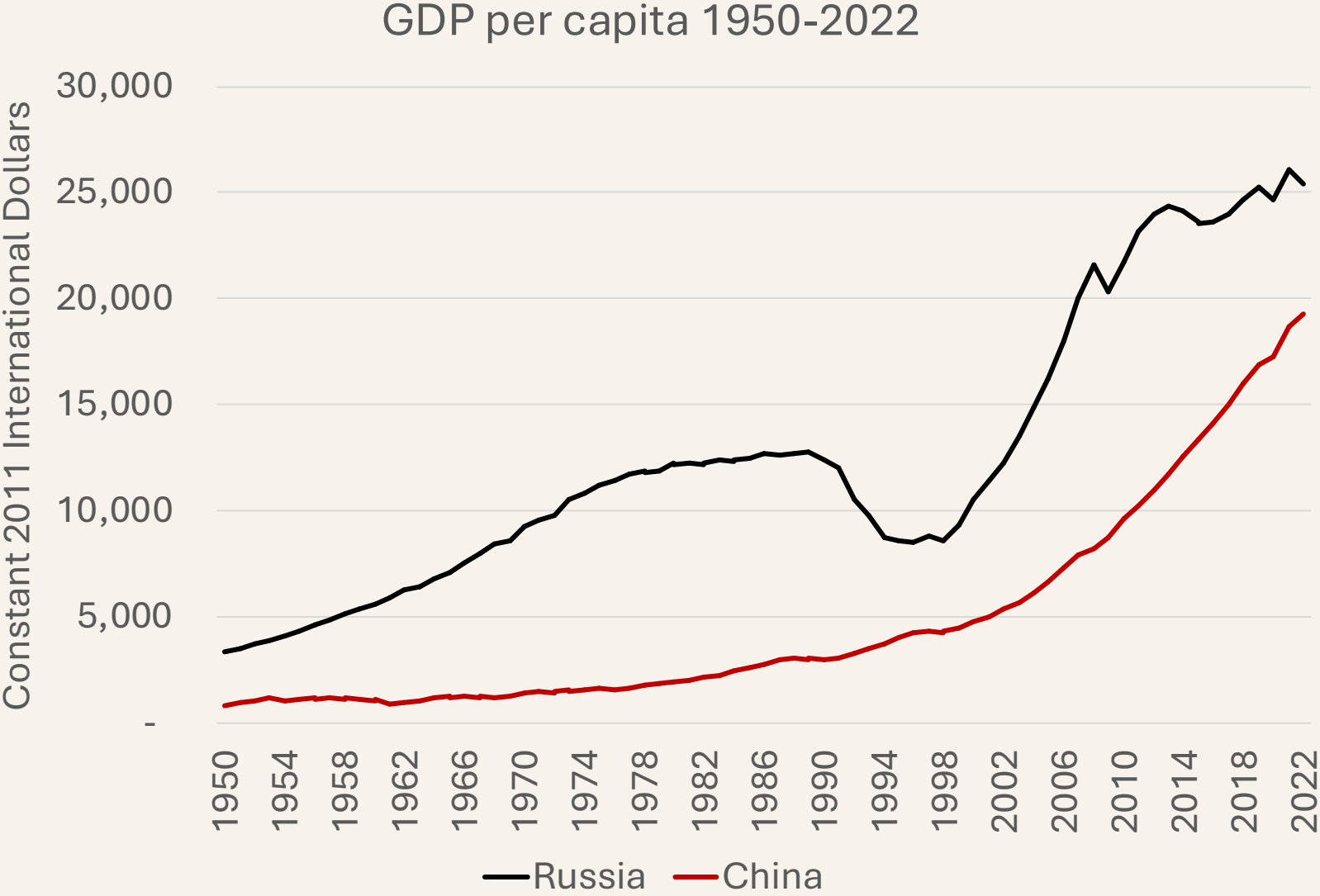
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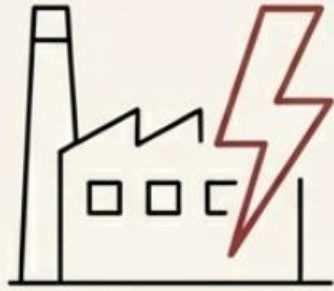
China's Gradual Rise vs. Russia's Shock Therapy Collapse



“China succeeded because it pursued gradualism,
while Russia failed because it adopted shock therapy.”

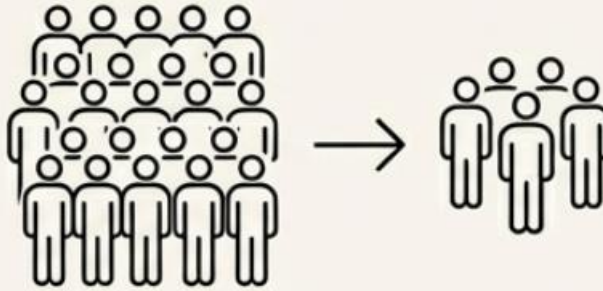
Our paper argues that this narrative is
incomplete.

Our Thesis: China's Reform Was a Hybrid of National Gradualism and Localized Shock Therapy



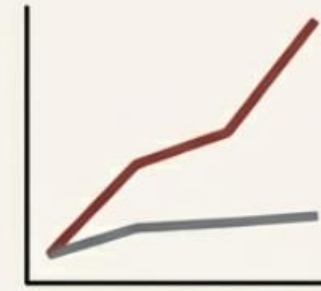
Localized “Big Bang”

Radical, shock-therapy-style reforms were imposed on China's old industrial heartlands.



The Reserve Army

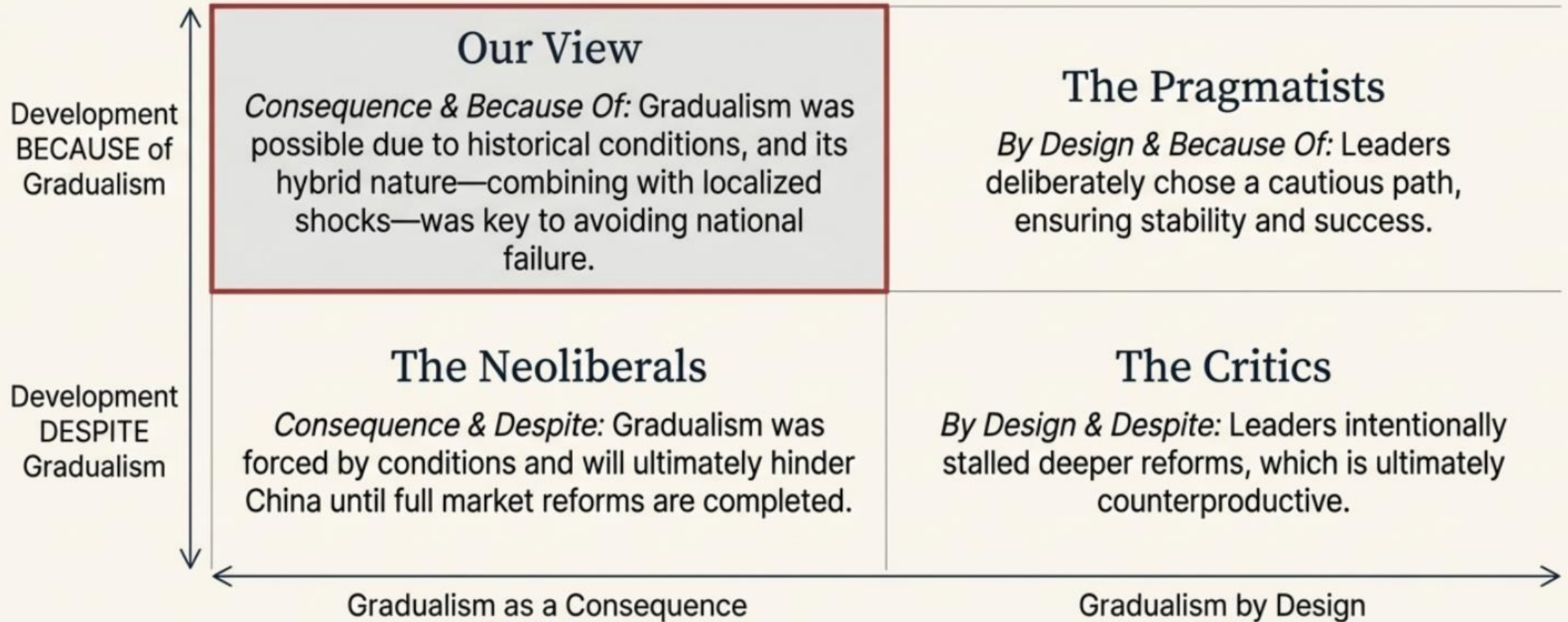
A vast, mobile rural labor force absorbed the economic shocks, preventing national collapse and disciplining the urban working class.



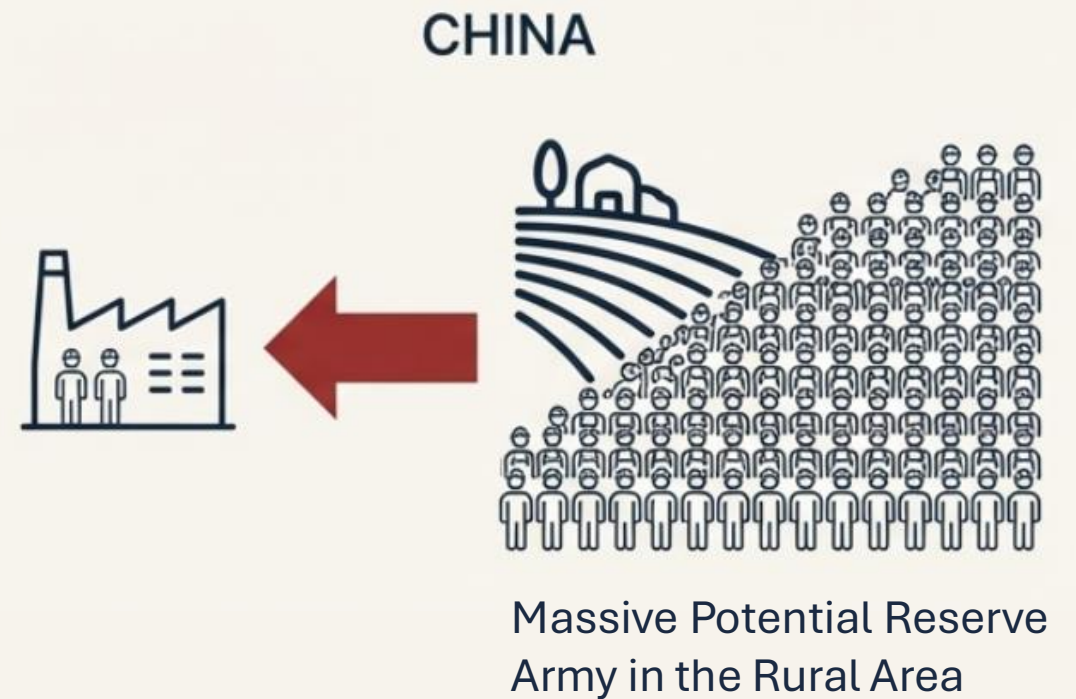
Durable Divergence

This hybrid strategy created lasting economic inequality between regions that faced the shock and those that benefited from it.

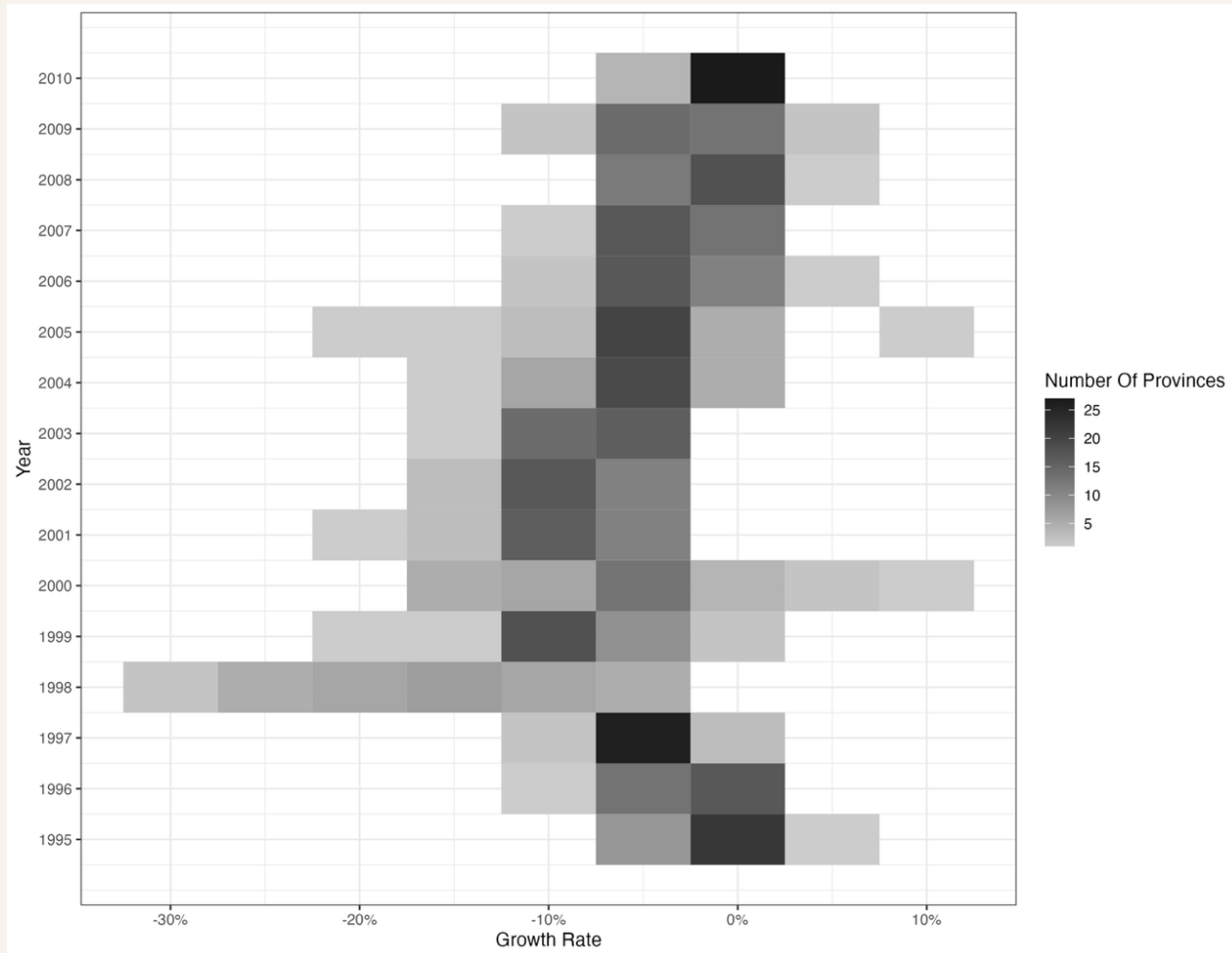
Three Competing Explanations for China's Path



The Critical Difference: China Possessed a Vast "Potential Reserve Army of Labor"



The 'Gradual' Decline Was Punctured by a Concentrated Shock in the Late 1990s



Distribution of Provincial State-owned Unit Employment Growth Rates from 1995 to 2010.

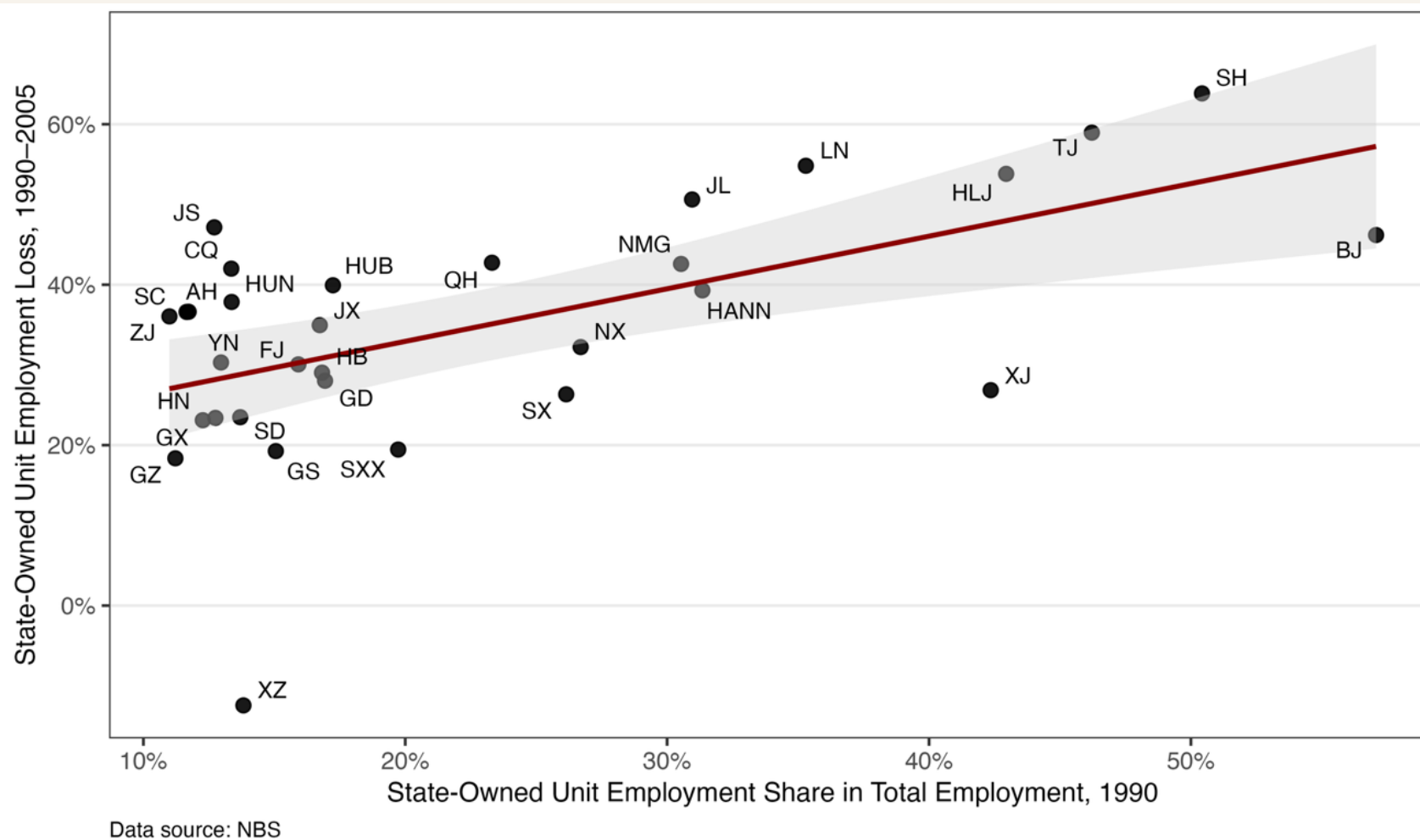
The 'Gradual' Decline Was Punctured by a Concentrated Shock in the Late 1990s

Year	More Than 10% Decline		More Than 20% Decline	
	Population Share	GDP Share	Population Share	GDP Share
1990	0	0	0	0
1991	0	0	0	0
1992	0	0	0	0
1993	1.1%	4.3%	0	0
1994	0	0	0	0
1995	0	0	0	0
1996	0	0	0	0
1997	0	0	0	0
1998	60.5%	58.6%	16.1%	19.3%
1999	7.1%	4.3%	0	0
2000	20.3%	15.6%	0	0
2001	10.3%	13.5%	0	0
2002	12.7%	15.2%	0	0
2003	0.4%	0.3%	0	0
2004	1.0%	5.1%	0	0
2005	11.9%	11.9%	0	0

Population and GDP Shares of Provinces Experiencing Substantial Annual Declines in State-Owned Unit Employment, 1990-2005.

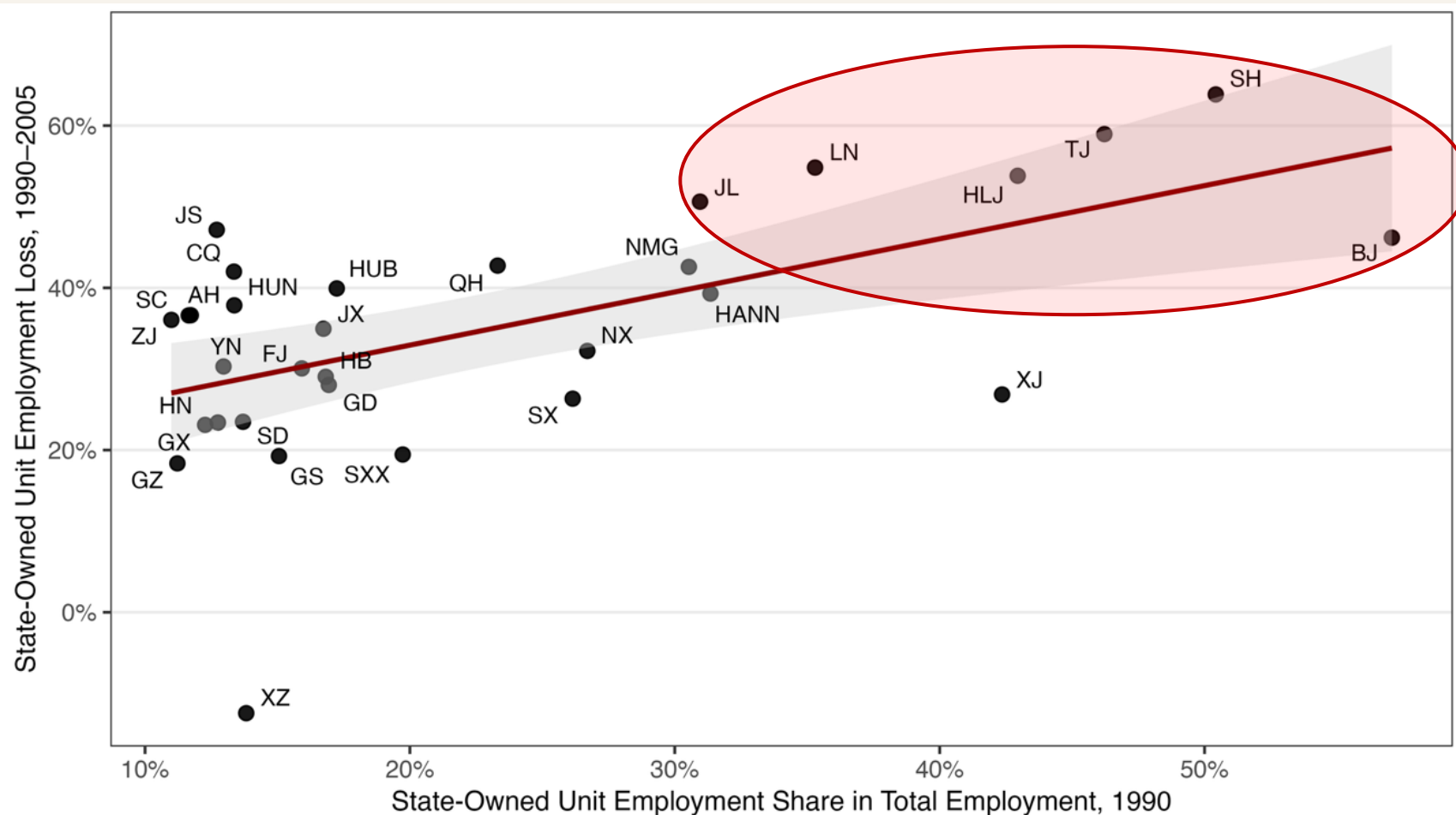
Data Source: NBS (2025) and *China Statistical Yearbook* (NBS 2024 and various years).

The National Shock Was Composed of Radically Different Provincial Experiences



Share of State-owned Unit Employment in Total Employment in 1990 and Subsequent State-owned Unit Employment Loss, 1990-2005.

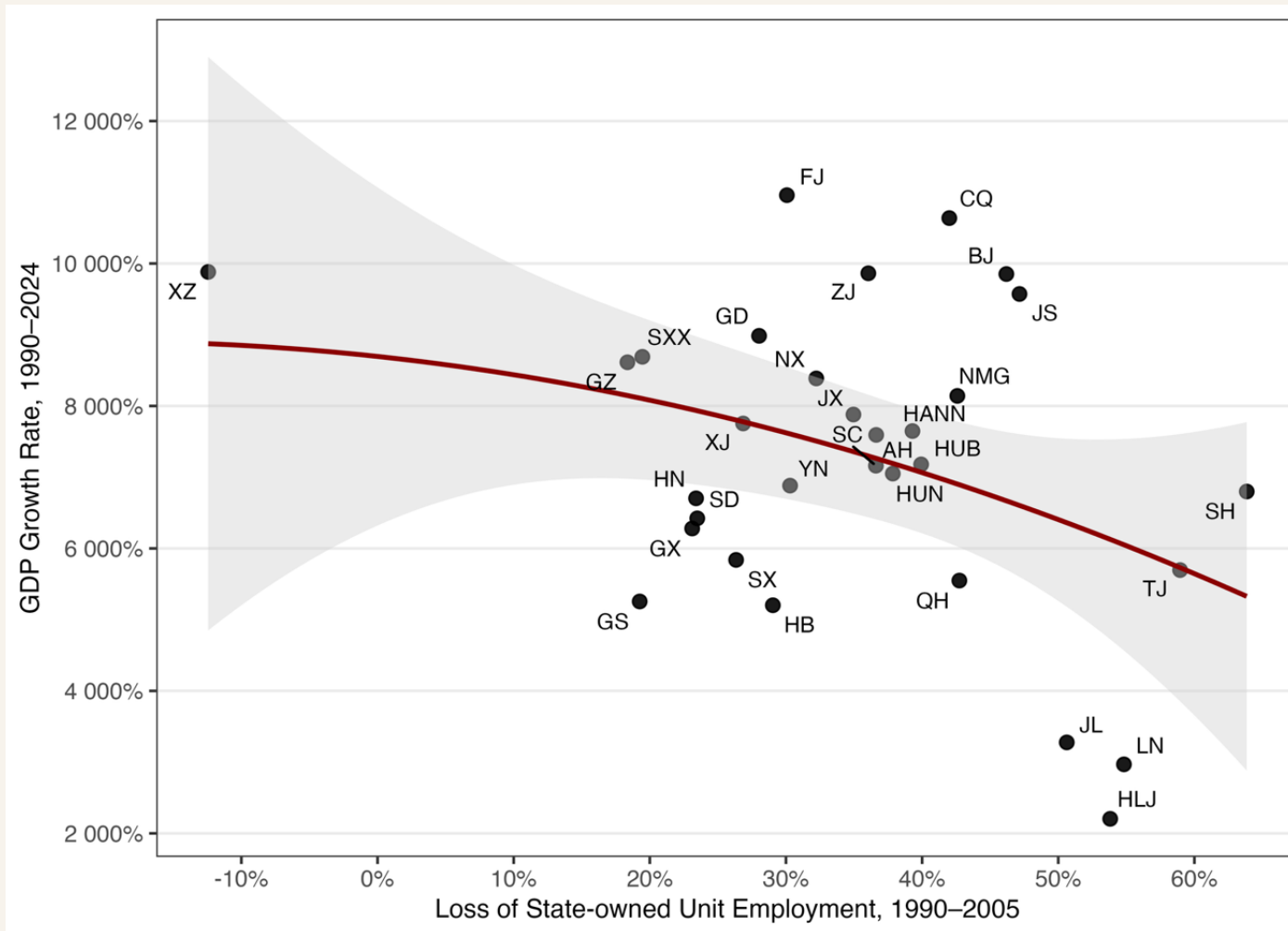
The Burden of Shock Fell Systematically on China's Old Industrial Heartland



Data source: NBS

Share of State-owned Unit Employment in Total Employment in 1990 and Subsequent State-owned Unit Employment Loss, 1990-2005.

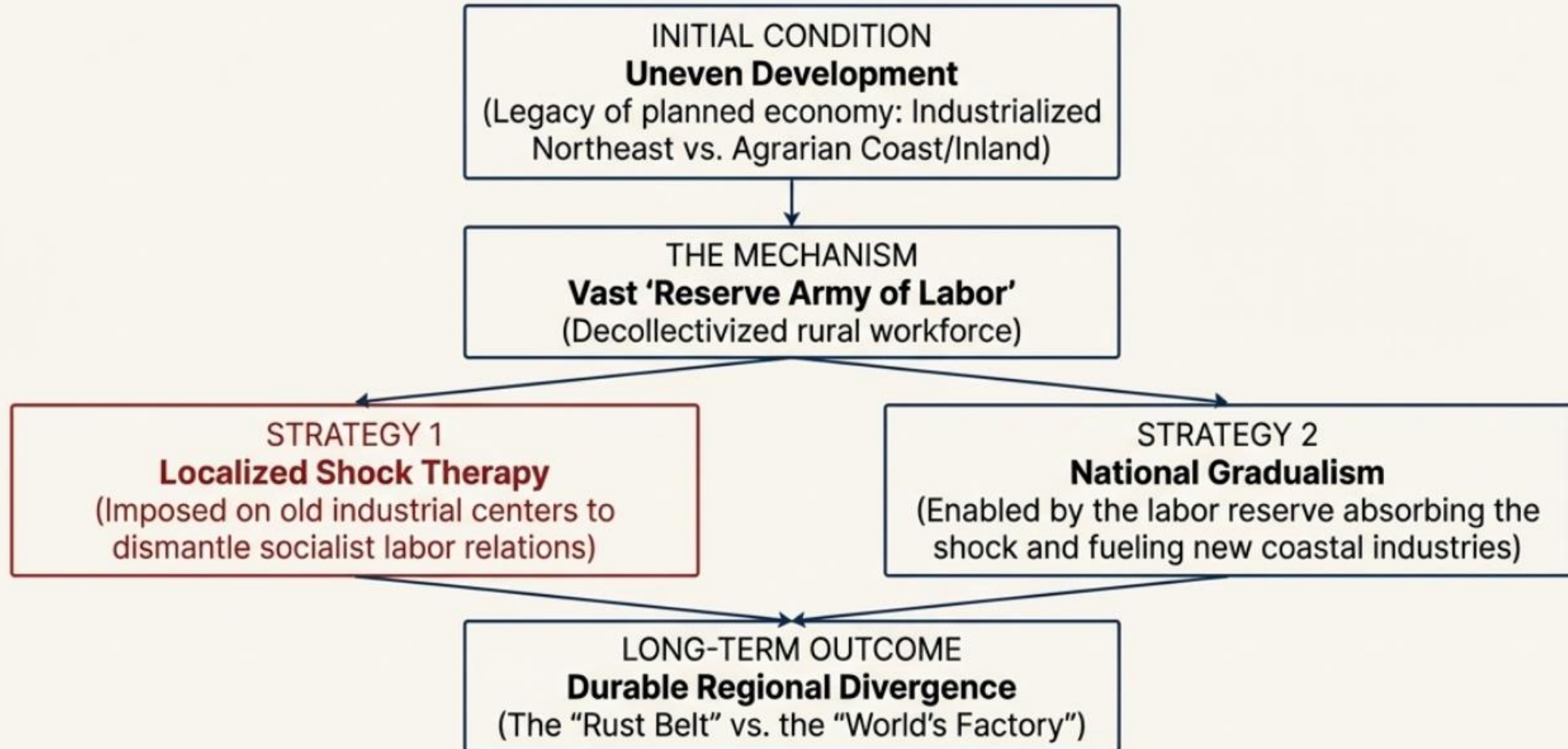
The Restructuring Shock Created a Lasting Economic Divergence Between Regions



Loss of State-owned Unit Employment
and Long-Run GDP Growth

Data Source: NBS (2025) and *China Statistical Yearbook* (NBS 2024 and various years).

A New Framework for China's Economic Transition



Conclusion: Beyond the Myth of Uniform Gradualism

- China's reform was a **hybrid**.
- The distribution of reform costs followed **socialist legacies and class structure, not efficiency or growth potential**.
- The costs of shock therapy are **durable**.
- This analysis offers a **correction to mainstream narratives** and provides a more critical foundation for understanding neoliberal reforms globally.