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THE CHINESE PUBLIC REALM AS "BAO = THIRD REALM"  
- A GUIDE TO UNDERSTANDING MODERN AND CONTEMPORARY  
CHINESE SOCIAL ECONOMY -

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**The Chinese Public Realm as "Bao = Third Realm"**  
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ABSTRACT. This paper considers Sukekata Kashiwa's "Bao" and Philip Huang's "third realm" to be historical Chinese "public realms" and defines a new Chinese "public realm" to understand modern and contemporary Chinese social economy, namely "intervening space" = "public space" as an extension of "Bao = third realm." In addition, this paper shows a simple dynamic model (dynamic social economic system) of how "Bao = third realm" ("Public Realm *i*" – "Public Realm *iii*") has historically been the Chinese "public realm" of dynamic "traditional China" since the late imperial period.

This paper further considers "Bao = third realm" as a "public realm" unique to China, where the interactive relationships between "state" and "society" are repeated and evolve together with time. The "Bao = third realm" of the late imperial period (Public Realm *i*) had an autonomous logic and characteristics, the "Bao = third realm" from 1949 to the latter half of the 1970s (Public Realm *ii*) was institutionalized through permeation by the state, and the "Bao = third realm" resulting from a policy shift in the late 1970s onwards (Public Realm *iii*) was reborn as a new "Bao = third realm" that combined the earlier two public realms.

Using a simple dynamic analysis, this paper shows that since the 1990s, "Bao = third realm" (Public Realm *iii*) has not undergone a rapid shift toward "Western elements," contrary to the former Soviet Union, and this has provided a stable social environment for China's subsequent rapid economic growth. This suggests that, it is impossible to correctly understand China without accurately interpreting its historical changes, its economic and social system in "Bao," and the unique relationship between state and society in the "third realm." We can by no means view China's social economy through the idealistic logic emerging from Western experience. However, too great an emphasis on "traditional China" might again lead to a closed society. In that sense, a new "paradigm" is required, one able to reconcile both "Western elements" and "traditional China." We hope that the analysis of "Bao = third Realm" as China's public realm offered in this study will become a new methodology able to provide an objective, top-down view of dynamic "traditional China" and "Western elements."

**Keywords:** the paradigmatic crisis; public realm; Bao = third realm; western elements; centralized elements; dynamic social economic system.

**JEL classification:** B15; B52

## 1. Introduction

Is there a "public realm" in China's social economy? Before answering this question, it is first necessary to address the question of what a "public realm" is, and how we ought to view the "public realm" in China.

In his paper "The Paradigmatic Crisis in Chinese Studies" (Huang, 1991), which had a profound impact on Chinese studies, Philip Huang, a Ming and Qing era historian, points out the existence of various paradoxes in studies of China's historical social economy that had brought about a "paradigmatic crisis" in Chinese studies, citing the following four paradoxes as examples:<sup>1</sup> (1) a fragmented "natural economy" and an integrated market, (2) the expansion of the public realm without the development of civic power,<sup>2</sup> (3) the development of legal formalism without liberalism, and (4) the relationship between structural change and agency in the Chinese Revolution.<sup>3</sup> In particular, Huang (1991) explains (2) as: although the spread of organizations such as the *hánguì*, *shūyuàn*, *shàntáng*, and *yìcāng* during the Ming and Qing dynasties may call to mind Habermas's "public realm" as the emergence of non-state public associations, they are fundamentally different. The "public realm" as coined by Habermas is premised on the roots of Western democracy, in which the public and private realms, or the state and "civil society," interface with and permeate each other. If we apply Habermas's "public realm" with its dualistic view of state and society to China, from the perspective of Western democracy we should recognize that the phenomenon whereby "the expansion of the public sphere in people's lives and confrontation between state and civic power are combined" (Huang, 1994, translated by Yasuhiko Karasawa, p.324) cannot be observed in China like in Western societies, creating a differentiation between the two. In China between 1600 and 1895, civic-public associations were established and developed, but if we think of these as China's "public realm," a paradox arises as a differentiation from the Western concept of a "public realm" which involves the development of "civic power" in state opposition.

Does this imply that there is no "public realm" in China? Huang (1993) draws further attention to Habermas's use of "public realm." Huang (1993) argues that when "public realm" is used as a shorthand for the "bourgeois public sphere," it is used to describe a phenomenon apparent in a particular period of history (e.g., late 17th century England and 18th century France). However, if "the liberal model" and "the plebeian public sphere" are discussed with strict distinction as two separate models within the "bourgeois public sphere," then "public realm" can be used to correspond to these two concepts. In this case, the "bourgeois public sphere" or "public realm" has both generality and versatility (Huang, 1993, p.217). In this sense, Huang (1993) believes that Habermas's "public realm" is polysemous and can be used more broadly. From Habermas's broad concept of a "public realm," Huang (1994) defines a "third realm" extending beyond the dualistic framework of state and society, where he cited the Chinese judicial system and local administration in the final years of the imperial era as examples of the "third realm" in

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<sup>1</sup>Most of Philip Huang's papers are written in English, and many have been translated in China and Japan. The translation of the author's name differs between Japanese and Chinese translations, and to avoid confusion, in this paper "Huang" is used in all cases. Note that the publication dates of referenced papers are the publication dates of the English-language papers. For example, "Huang (1991)" refers to the publication date of Huang (1991) in the references. Page numbers given in citations in this paper reflect the page numbers in the English-language versions of those papers.

<sup>2</sup>Although civic is translated as either "*gōngmín*" [citizen] or "*shìmín*" [citizen], this paper uses civic=*gōngmín* except in quotations. See Takita (2019) on the distinction between "*gōngmín*" and "*shìmín*" in translation.

<sup>3</sup>The views of Chinese scholars and American scholars on the relationship between structural change and artificial selection in the Chinese Revolution are diametrically opposed, and this is viewed as a paradox (Huang, 1991, pp.324-327).

China. It can be inferred that the "third realm" is indeed the "public realm" that Huang (1993) had in mind.

A concept similar to Huang's (1993) "third realm" was presented some 40 years previously in a voluminous study by Sukekata Kashiwa, a Japanese agricultural economics researcher.<sup>4</sup> Kashiwa (1985a, 1985b, 1986a) shows that people who engage in agriculture in harsh natural environments (e.g. Northern China) face great difficulties achieving stable harvests.<sup>5</sup> Thus, "in human production which runs against natural actions, others are responsible for ensuring the results. In other words, a third person interferes and ensures the results. This is, in other words, 'Bao' determinization" (Kashiwa, 1985b, p.150). As we shall see in greater detail later, what Kashiwa refers to as "Bao" is a type of voluntary social system of risk distribution in a society that requires "self-fulfilling prophecies," and it appears to have been an economic order of "ordination" that emerged in traditional Chinese society over the course of its long feudal history. This "Bao" is similar to the "third realm" posited by Huang (1994), and the objects and periods analyzed by the two men also overlap. It would seem that "Bao = third realm" is a Chinese "public realm" and the "intervening space = public realm" in understanding Chinese social economy.<sup>6</sup>

In Japan, Kashiwa's "Bao" and Huang's (1994) "third realm" are beginning to draw attention again. Kato (2010, 2013) focuses on "undertaking" the idea of "Bao" and develops their own theory of Chinese capitalism as an "ambiguous institution," while Mori (2012) proposes a "trilateral structure" to the "third realm." Nakagane (2014) casts a skeptical eye on Kato's (2013) "ambiguous institution" and calls for its theoretical revision. Kato (2014) reasserts his thoughts in his reply. Professor Hiroyuki Kato sadly passed away in 2016, but in a collection of essays in memoriam, Nakagane (2018) adds his own views on the "ambiguous institution." It appears the controversy surrounding this "ambiguous institution" has come to an end, but the more closely we examine Kashiwa and Huang's (1994) studies, the more we notice that the controversy revolves around what Huang (1991) calls "paradigmatic assumptions," and we cannot reject the possibility of falling into a "paradigmatic crisis" if we attempt to develop theories without considering "paradigmatic assumptions."<sup>7</sup>

Today, more than at any other time, we require calm and wisdom to understand China's true nature. Calm hints that we need to temporarily "detach" ourselves from the "tacit assumptions" amassed in empirical science and seek wisdom in history.<sup>8</sup> Based on Philip Huang's "third realm" and Sukekata Kashiwa's "Bao as ethical discipline," this study attempts to explain the dynamic "traditional Chinese" social economy from the 19th century to the present day in an easy-to-understand form, taking "intervening space = public realm" as a new Chinese "public realm" and thereby providing a guide to understand the Chinese social economy.

This paper is structured as follows: In the first section, we summarize Kashiwa's "Bao" and Huang's (1993) "third realm" as a historical Chinese "public realm" and attempt to define the new concept of "public realm" for understanding the Chinese social economy that experienced 2000 years of feudalism, namely "intervening space = public space" as an extension of "Bao = third realm." In Section 2, we examine the significance of "Bao = third realm" in China's contemporary social economy by examining the "ambiguous institution" controversy between Kato and Nakagane

<sup>4</sup>Kashiwa Yuken's works (3-5, 7), to which this paper refers, had already been published by Jinbun Shoin in 1948. For details, see Kato (2010).

<sup>5</sup>From here, Kashiwa (1985a, 1985b, 1986a) will be referred to as "Kashiwa" outside of citations.

<sup>6</sup>See Part 2 of Togo *et al.* (eds.) (2016).

<sup>7</sup>The original text uses the term "paradigmatic assumption" (Huang, 1991, p.308), which is translated as "guīfànxiànniàn" in the Chinese language version of the same text (Huang, 1993, p.47). Here we refer to Hoang (1994, translated by Yasuhiko Karasawa, p.314).

<sup>8</sup>Mori (2012, pp.313-314).

to increase our understanding of the modern Chinese social economy. In Section 3, we present a simple dynamic model of "Bao = third realm" in the Chinese social economy as defined in Sections 1 and 2. In this model, while keeping the dynamic "traditional China" in mind, we attempt to show historically and without strict mathematical deduction that "Bao = third realm" is the "intervening space = public space" in China by incorporating the economic concepts of principal component analysis and dynamic paths. In the concluding remarks, we summarize this study and set out future research possibilities.

## 2. Philip Huang's "third realm" and Sukekata Kashiwa's "Bao as ethical discipline"

Philip Huang's "third realm" also differs from Habermas's broadly defined "public realm" in that it is influenced by the state and society but is not combined with them. The "third realm" is regarded as having an autonomous logic and its own characteristics that transcend the state and society (Huang, 1993, p.225). Huang (1993) demonstrates the existence of the "third realm" by using China's judicial system, local administration, and sub-county administration in the late imperial period. For example, in addition to the formal legal system in official courts, an informal justice system (kin/community mediation) existed as a parallel legal system at the time. However, the majority of civil cases were settled by mediation or arbitration in the "third realm," which reconciled the two legal systems, before they went to trial. In fact, in three regions, including Ba County in Sichuan Province from 1760 to the end of the Qing Dynasty, more than 60% (407) of the 628 civil litigation motions were mediated in the "third realm" (Huang, 1993, p.226). This "third realm" was also observed in local and sub-prefectural administrations. The "*Xiangbao*" system, which existed universally throughout North China during the 19th century, can also be regarded as a "third realm" (Huang, 1993, 2019). Huang (1993) points out that the Chinese social economy in the late imperial period was like a three-tier pyramid, with a "third realm" mediating the state at "the top" and society at "the base." This strange relationship formed China's unique social economic system, with "centralized minimalism" as a major factor and cornerstone in the formation of the social economic system or "third realm."<sup>9</sup>

A similar concept to the "third realm" is Kashiwa's "ethical discipline as Bao." Unlike the European social order, the Chinese social economic order of the late imperial and Republic of China periods are viewed as subjective orders that were shaped internally according to their environment. The reason for this is that China's social and historical environment at that time was differed vastly from that of Europe. For example, in terms of freedom, people in Europe "tried to break away from power to assume it for oneself" (Kashiwa, 1985b, p.151), while the Chinese society "was completely laissez-faire, but that freedom was not guaranteed," meaning there was no control of power of the police and free economic behavior was ensured (Kashiwa, 1985b, p.151). Thus, a large number of individuals enjoying freedom without any political guarantees, with self-restrained discipline coexisting with self-interests, is a type of subjective Chinese social economic order that envelopes itself in this "Bao" form according to its natural, social, and historical environment (Kashiwa, 1985b, pp.152-155). Yomoda (2018) explains that Kashiwa's idea of (Chinese) law and order is "not only an order in the form of restraint from the outside, but also legal order that emerges from within the society, communities, and business customs without government restraint or influence" (Yomoda, 2018, p.91).

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<sup>9</sup>The "simplified governance of centralization" is a method of governance in which the sophistication of centralization and the "simplification" of governance at the societal end coexist (Huang, 1993, 2007). This method of governance has the advantage of reducing administrative costs, but also has the disadvantage of neglecting society at its fringe.

In this way, the Chinese social economic order to Kashiwa is a "Bao" order in that it has the appropriate autonomy and "every action has a "Bao-like rhythm to it." In other words, this is an attempt to shift the indeterminacy of their actions to others as third parties. However, those who are "Bao" third parties will attempt to shift this in a "Bao" manner onto a fourth party, and so on, so that the "Bao" social order becomes multi-layered and encompasses the society. This is a marked difference compared to European societies with their competitive ethical discipline, and the Japanese society with its "harmonious" theoretical discipline (Kashiwa, 1985b, p.155).

At the roots of Kashiwa's understanding of Chinese social economy is the idea of "understanding individuality-forming subjectivity" (Kashiwa, 1985b, pp.14-18), which extends beyond the transcendental perception of Chinese society, and perceptions conforming to European society. "Individuality-forming subjectivity," or the rational behavior of autonomous subjects recalls "self-fulfilling prophecies" in economics. However, in the Chinese social economy of the late Imperial and Republic of China eras, in periods of uncertainty, these could not be achieved without risk distribution. Thus, it seems that the economic order as "Bao" is rightly a social system of autonomous risk distribution arising from traditional Chinese society, a kind of "self-forming" economic order (Kashiwa, 1986b).

Both Huang's (1993) "third realm" and Kashiwa's "Bao" economic orders recognize and understand the Chinese "uniqueness = traditional China" in a traditional social economy which experienced millennia of feudal social history.<sup>10</sup> If Huang's (1993) "third realm" focuses on the spatial relationship between the state and society, Kashiwa's "Bao" emphasizes the human relationships between individuals at the edge of society.<sup>11</sup> Thus, "Bao = third realm," which unites these two ideas, can be defined as a new Chinese "public realm," which is the "intervening space" or public space that provides clues to understanding the modern Chinese social economy.

Huang (1993) points out that China's "third realm" has changed over time. Immediately after 1949, the state interfered in all realms, and what was formerly the "third realm" almost disappeared due to "stateification" (the institutionalization of the "third realm"). Then the "collective system," created by the direct permeation of the state into the "third realm" and interactive relationships between state and society, became a new "third realm." From the late 1970s, through the policy shift towards "reform and opening up," the "third realm" was further transfigured through "de-stateification" (Huan, 1993, pp.235-238). Huang (2019) believes that the "third realm," which transcends Western thinking, applies not only to China in the late imperial period, but also to the relationship between state and society in modern and contemporary China. Particularly, Huang's analysis suggests that the "third realm" after 1949 also contributed greatly to China's industrialization and an increase in the national education level, including the literacy rate (Huang, 1993, p.366).

Ideas similar to Kashiwa's "Bao" and Huang's (1993) "third realm" include Zhou's (2007, 2014, 2016) analysis of the promotion of competition in Chinese bureaucratic administration

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<sup>10</sup>Kashiwa does not recognize post-Qin China as a feudal state. Kashiwa holds that "While Europe is hegemonic and legalistic, China is monarchic and politically correct" (Kashiwa, 1995b, p.66), and regards China as a "politically correct" or "despotically unified" state. As to the Chinese feudal system, Kashiwa believes that "[the feudal system] fell into ruin once a centralized district-county system was established in the Qin dynasty" (ibid, p.68), and that China "appears to be a despotic state under its emperor" (Kashiwa, 1995b, p.69).

<sup>11</sup>Kashiwa regards China's "Bao" more broadly in all aspects. For example, in Chapter 3 of "'Bao's Ethics, Heaven and the Son of Heaven" (Kashiwa, 1995b), he writes, "there is a 'Bao' intercessor between Heaven and Man. This is the emperor" (Kashiwa, 1995b, p.165), and offers an analysis such that "the emperor is simultaneously both a supreme being and a private individual... the Chinese emperor is highly economically active in the process of rationalization of the Chinese social economy, providing certainties to the uncertainties of its operation...the economic and social function of the Chinese emperor, and thus the Chinese state, is surprisingly positive" (ibid).

and "administrative inclusion" between administrative bodies. <sup>12</sup>These analyses pay particular attention to agency problems as incentives.<sup>13</sup>

### 3. The debate in Japan surrounding China's "ambiguous institution"

Against the backdrop of the discussion surrounding Kashiwa's "Bao," Huang's "third realm," and Mori's "trilateral structure," there is a debate in Japan about China's "ambiguous institution."

Mori (2012) believes that there have been three stages of structural change in post-reform China. These are the "desocialization" stage (1980s), the "capitalization" stage (1990s), and the "regime change" stage (late 2000s). The "regime change" stage has not turned out as expected, however. <sup>14</sup> Thus, Mori (2012) sees China as being in the second stage as of 2012. The author develops a theory of a "trilateral structure," associating it with Philip Huang's "third realm." The "trilateral structure" refers to the new trilateral social economic structure that emerged in the process of China's structural change—that is, "central/local/edge," "state/semi-state and half-social/social," "planned/semi-planned and semi-market/market," and "worker/migrant rural worker/farmer"—distinct from the old bilateral structure (e.g., state/society).<sup>15</sup> Mori (2012) views Huang's "third realm" (1993) as another type of "trilateral structure" (Mori, 2012, p.318).

Kato (2012, 2013) develops his own theory of Chinese-style capitalism as an "ambiguous institution" from institutional and contract theory, paying attention to Kashiwa's "Bao" as ethical discipline and Mori's (2012) "trilateral structure." Kato (2013) considers "Bao" a generic term for "contracting" and believes that "Bao" (contracting) as an institution was a major factor in bringing about China's "ambiguous institution." Furthermore, Kato (2013) points out that Huang's (1993) "third realm" and Mori's (2012) "trilateral structure" are "two hypotheses that complement 'Bao'," and that in Mori's (2012) "trilateral structure," parts that are neither "state nor society," neither "planned nor market," (i.e., "half-state and half-society," and "half-planned and half-market") are "ambiguous," and these "ambiguous institutions" form the basis of "a kind of structure," (ibid., above). That is, Chinese capitalism is an "ambiguous institution."

Nakagane (2014) questions Kato's (2013) definition of "ambiguity" and points out that while it is "neither A nor B," it can also be considered "both A and B." Nakagane (2014) also draws from institutional and development theories to point out that China's "ambiguity" is not so much the overlapping of parts of the "trilateral structure" as it is those parts which have not been institutionalized. Let us set out the Kato-Nakagane dispute as shown in Figure 1a (set theory) below:

(Figure 1a, Figure 1b)

If sets  $A$  and  $B$  in Figure 1a are "state" and "society" respectively, then  $Z$ , the union set of set  $A$ , and set  $B$  corresponds to what Mori (2012) calls "half-state and half-society." <sup>16</sup> The "ambiguity" that Kato (2013) takes issue with is precisely the existence of the part: venturing not to clarify the contents of the vertical chain of command and horizontal contractual relations,

<sup>12</sup>Zhou's (2014, 2016) "Administrative Subcontract" is reminiscent of Sukekata Kashiwa's "Bao," perhaps in the sense of the Chinese proverb "*yīngxióngsuǒjiànliùtóng*" [great minds think alike].

<sup>13</sup>Shimizu (2003) uses a simple agency model to show that a fixed cropping fee system (viewed as a kind of "contracting out") in a smallholder system acts as an incentive resulting in higher effort and higher output for smallholders than a sharecropping system. In this sense, if we think of "Bao" as "contracting," "Bao" as a social economic order can be considered to possess a certain rationality.

<sup>14</sup>Mori's (2012) "Taisei henyō" [Regime Change] is based on S. Huntington's theory of "regime change."

<sup>15</sup>See Table 1 in Mori (2012).

<sup>16</sup>In terms of set theory, this is precisely what Nakakane (2014) calls a case of "being both  $A$  and  $B$ ."

giving rise to "ambiguity" (Kato, 2013, p.41). On the other hand, if sets  $A$ ,  $B$ , and  $C$  are the "institutionalized" parts and the dotted sets surrounding them are the "non-institutionalized" parts, then the "ambiguity" that Nakagane (2014) considers includes the "non-institutionalized" parts (all dotted sets) and the overlap between "non-institutionalized" parts (overlap or intersection of dotted sets). This controversy appears to be an unfocused debate, and this may be because Mori's (2012) "trilateral structure" and Huang's (1993) "third realm" are equated and conflated and as the conclusions of Chinese historical research on "Bao" and the "third realm" are viewed from the perspective of Western institutional theory. This dispute appears to overlook traditional China and western elements (to be explained later), that is, as Huang (1991) states, "there is no paradigmatic assumption."

Let us examine the difference between the "trilateral structure" and the "third realm." The intersection in set  $Z$  in Figure 1a certainly corresponds to what Mori (2012) terms "half-state and half-society," but this is entirely different from what Huang (1993) calls the "third realm." China's "collective system" can be cited as an example of Mori's (2012) "half-state and half-society"; however, the "collective system," as conceived by Huang (1993), is where the "state" permeates and is "institutionalized" into the "third realm," bringing together "state" and "society." That is, if sets  $A$  and  $B$  in Figure 1b are "state" and "society," then Huang's (1993) "third realm" corresponds to set  $D$  in Figure 1b, and set  $C$  can be considered the "collective system."

This kind of "third realm" is considered a "public realm" (as defined by the author) unique to China, which has changed over time through the repeated interactive relationships between "state" and "society." The "third realm" (the "public realm") of the late imperial period had an autonomous logic and characteristics; the "third realm" ("Public Realm *ii*") from 1949 to the late 1970s was institutionalized through permeation by the state; from the late 1970s (policy shift) the "third realm" ("Public Realm *iii*") was reborn as a new "third realm" by fusing the previous two "third realms." On the other hand, Kashiwa's "Bao" Chinese social economic order can be more broadly considered one big "parcel" including the human relationships at the edge of society.<sup>17</sup> Thus, the dotted set  $E$  in Figure 1b can be defined as Kashiwa's "Bao." Figure 1b represents "Bao = third realm" as a Chinese "public realm" for understanding modern and contemporary Chinese economy and society. Furthermore, if we consider Huang's (1993) changing "third realm," we can view the "third realm" as the "public realm" of the dynamic "traditional China" in both modern and contemporary times. In the following sections, by adapting the idea of dynamic systems (see the Mathematical Appendix), we will try to historically show that the Chinese "public realm" in dynamic "traditional China" is "Bao = third realm" ("Public Realm *i*" - "Public Realm *iii*").

#### 4. "Bao = third realm" as the Chinese "public realm"

Figure 2 shows "Bao = Third realm" as a Chinese "public realm" and a dynamic social economic system in "traditional China" throughout history.

(Figure2)

The figure comprises of two axes and four quadrants. The north-south axis and the east-west axis represent "Modern institutions (State A)/Traditional system (local)" and "Liberal (Individual)/Centralized rule (State B)" respectively, and the four quadrants formed by the two axes show their relations. The first quadrant shows the relationship between modern institutions (State A) and liberalism (individual), the second quadrant represents the relationship between modern institutions (State A) and centralized rule (State B), the third quadrant represents the relationship

<sup>17</sup>See Note 11.



between centralized rule (State B) and traditional institutions (regions), while the fourth quadrant represents the relationship between traditional institutions (regions) and liberalism (individuals).

The first quadrant is represented by dotted set  $C$ , "Western elements," which experienced 1,000 years of feudal society and formed Western society (north-south arrow).<sup>18</sup> The term "Western elements" expresses the relationship between the elements of the institutionalized Western state (State A) and liberalism (the individual) in Western society through the concept of "principal component analysis."<sup>19</sup> In general, in modern Western societies, the relationship between these various elements is thought to be positive as the liberal element is realized in the modern institutionalized state (State A). Contrarily, the former Soviet Union, which was the model for Chinese socialism following 1949, lies within the Western cultural sphere and is not a modern institutionalized Western state (state A), but rather a centralized state (or socialist state, State B) (northwest-pointing arrow). The dotted line set  $D$  in quadrant II expresses the relationship (considered to be negative) between the various elements involved in modern institutions (State A) and centralized states (State B) through a "principal component analysis." Let us call these "centralized elements."<sup>20 21</sup> By contrast, quadrants III and IV represent the relationship between the centralized state (State B), traditional institutions (local), and liberalism (individual) from "traditional China" from the late imperial period to the present. Set  $B$  (filled) in quadrants III and IV corresponds to the "Bao = Third realm" concept shown in Figure 1*b*. This is understood as the Chinese "public realm" (north-south arrow), born in "traditional China" that experienced 2000 years of feudal society, but has changed over time ("Public Realm  $i$ " – "Public Realm  $iii$ ").<sup>22</sup> Set  $B$  is further divided in sets  $B_1$  and  $B_2$ .  $B_1$  represents the elemental relationship between the centralized state (State  $B$ ) in "traditional China" and traditional institutions (local), while  $B_2$  represents the elemental relationship between traditional institutions (local) and liberalism (the individual). On the other hand, the other arrows in Figure 2 indicate the changing "third realm" ("Public Realm  $i$ " – "Public Realm  $iii$ "), and Table 1 explains the consequences such changes have had on this dynamic social system. The Mathematical Appendix is represented by we and uses Figure 2 and Table 1 to show historically how "Bao = Third realm" ("Public Realm  $i$ " – "Public Realm  $iii$ ") as the Chinese "public realm" in dynamic "traditional China."

Table 1. Movement of each realm in dynamic social systems

	I/II- $\omega_1$	II/III- $\omega_2$	III/IV- $\omega_3$	IV/I- $\omega_4$
Contemporary Institutions(StateA)	↓	↓	↑	↑
Traditional Institutions(Local)	↑	↑	↓	↓
Liberalism(the individual)	↑	↓	↓	↑
Centralized(StateB)	↓	↑	↑	↓

<sup>18</sup>See Chen (2006).

<sup>19</sup>We believe that the terms "modern institutions" and "liberalism" in Figure 2 are inclusive expressions incorporating many different elements. For example, "modern institutions" includes elements such as Western constitutional government and legislation, while "liberalism" includes elements such as individual property rights and free elections. For simplicity, we refer to these here as "various elements."

<sup>20</sup>See Hidetake Kawaraji (2020).

<sup>21</sup>"Centralized rule (State B)" refers to "centralized power," and thus represents socialist states as well as the centralized state of late imperial China.

<sup>22</sup>Chen (2018) points out that if China's Spring and Autumn Warring States Period (or First Emperor) marked the beginning of feudal Chinese society, then China experienced a little over 2,000 years of feudalism up until 1840 (Qing Dynasty, Daoguang), when feudal Chinese society is thought to have ended.

First, let us look at "Bao = third realm" in the late imperial period. The Chinese "public realm" that emerged in "traditional China" through 2,000 years of feudalism, that is, "Bao = Third realm" ("Public Realm *i*"), is represented by  $B_1$ , which expresses the relationship between the centralized State  $A$  and the provinces in the traditional system (or local governments), while  $B_2$  represents the relationship between individuals within the traditional system.  $B$  can rightly be viewed as a structural outline of what Huang (1993, 2007, 2019) calls "simplified governance of centralization." In other words, if  $B_1$  and  $B_2$  represent the relationship between central and local government, respectively, and between each subject in fringe regions (society) in the late imperial period, then  $B$  can be considered as representing the relationship between the highly-centralized state and the "simplified governance" (neglect) of fringe society, that is, the subjective order of what Kashiwa terms "Bao."

However, from 1949 to the latter half of the 1970s, "Bao = third realm" can be viewed dynamically, considering the change from "Public Realm *i*" to "Public Realm *ii*." The shift from  $B_2$  to  $B_1$  (east-west arrows) represents the institutionalization of the "third realm" of the late imperial period (e.g., the transformation of the "*xiāngbǎo*" system into "resident committees"). Additionally, the "collective system" is considered the result of the permeation of the "state" into the "third realm" and its emergence from the relationship between the central government and the provinces (society) in the  $B_1$  region. The fully-fledged "nationalization" that took place from the 1950s onwards corresponds to the "stateification" described by Huang (1993); this is shown as all the elements of set  $B$  are absorbed (socialized) into "centralized elements" (socialized elements), indicated by the movement from  $B$  to  $D$  (north-south arrows).

With the policy shift in the late 1970s, the former "Bao = third realm" ("Public Realm *i*") became active again, reborn as a new "Bao = Third realm" ("Public Realm *iii*"). This "Bao = third realm" ("Public Realm *iii*") seems to have contributed greatly to China's economic growth since the 1990s. One of the reasons for this is that the reform policies implemented in the second half of the 1970s did not result in the extent of transformation seen in the former Soviet Union (seen as a change from "centralized elements"  $D$  to "Western elements"  $C$ ), but rather in the successful "implementation" of the "Bao = third realm" ("Public Realm *i*") in "traditional China." The movement from  $D$  to  $B$  (north-south arrows) shows that the regulated (nationalized) "Public Realm *ii*" again returned to "Public Realm *i*." In the words of Huang (1993) and Mori (2012), this process is really a "de-stateification" or "de-socialization." However, this differs from the "Bao = third realm" of the late imperial period. This is rather the rebirth of a new "Bao = third realm" ("Public Realm *iii*") with socialist flourishes.

From the 1990s, "Bao = third realm" ("Public Realm *iii*") can be seen to have further shifted from  $B$  to  $A$  (thick arrows in darker colors running north-south, see Figure 2). This movement appears to reflect a change in direction toward "Western elements" in the "Bao = third realm" itself. This corresponds to what Mori (2012) considers to be "capitalization." However, the "Bao = third realm" ("Public Realm *iii*") did not change direction toward "regime change" as Mori (2012) expects (i.e.,  $A$  did not become  $C$ ).<sup>23</sup> It was the absence of this change that provided a stable social environment to enable China's subsequent rapid growth. In other words, from a dynamics point of view, the changes in "Bao = third realm" ("Public Realm *iii*," set  $A$ ), as shown in Figure 2 and Table 1 (Figure 3 and Table 2), involved all regions in this dynamic system ( $I/II-\omega_1 \sim IV/I-\omega_4$ ) and the most stable temporal path in this dynamical system (Line  $l$ =Saddle point path) is the one with the origin as the steady state (See Figure 3 for the stable state)

<sup>23</sup>The series of movements in China from the late 1970s to the 1990s appear to be movements (from  $B$  to  $A$ ) along the saddle point path (Line  $l$ ) in this dynamic social system model, as shown by the east-west pointing, northeast pointing, and northwest pointing arrows in  $B$ .

(temporal path in regions  $\text{II}-\omega_1$  and  $\text{IV}-\omega_3$ ). An attempt to change  $A$  to  $C$  (movement in the  $\text{IV}/\text{I}-\omega_4$  region) would render this dynamic social system unstable. The reason for this is that in region  $\text{IV}/\text{I}-\omega_4$ , movement from any starting point deviates from the temporal path (saddle-point path) toward the steady state (origin = saddle point). As shown in Figure 3 in area  $\text{IV}/\text{I}-\omega_4$ ,  $A$  cannot move to  $C$ , and heads in the direction of liberalism (individual) with weak modern institutional elements (State A) (i.e., it heads towards extreme liberalism [neglected liberalism]). This is shown by the northeast-pointing arrow in Region  $\text{IV}/\text{I}-\omega_4$  as shown in Figure 3. The most compelling illustration of this is the transformation of the former Soviet Union into Russia today. The reform of the former Soviet Union in the 1990s can be thought of as a transformation from  $D$  "centralized elements" to  $C$  "Western elements." Thus, the former Soviet Union of the early 1990s, which lacked any elements of Western society, suddenly attempted to move toward "Western elements" and as a result moved toward liberalism (individual) while lacking modern institutional elements (State A), resulting in extreme liberalism (neglected liberalism). This is indicated by the southeast-pointing arrow in regions  $\text{I}/\text{II}-\omega_1 \sim \text{IV}/\text{I}-\omega_4$  in Figure 3.

As China's social economic system, the newly reborn Chinese "public realm" or "Bao = third realm" will gradually move in the direction of modern institutions (represented by the north-pointing arrow in Figure 2) going forward. However, if it is not transformed to fit the various elements of "traditional China" that differ from Western society, the trajectory of the former Soviet Union might be repeated in China. On the other hand, if there is a rejection of "Western elements" and an overemphasis on "traditional China," it may once again become a closed society. Thus, a new "paradigm" is required, possessing "paradigmatic assumptions" that can reconcile both "Western elements" and "traditional China." In that sense, this study's analysis of "Bao = third realm" (dynamic social system model) as the Chinese public realm may afford a new methodology able to command an objective, top-down view of dynamic "traditional China" and "Western elements."<sup>24</sup>

## 5. Conclusion

This paper considers Sukekata Kashiwa's "Bao" and Philip Huang's "third realm" to be historical Chinese "public realms" and defines a new Chinese "public realm" to understand modern and contemporary Chinese social economy, namely "intervening space" = "public space" as an extension of "Bao = third realm." In addition, this paper shows a simple dynamic model (dynamic social economic system) of how "Bao = third realm" ("Public Realm  $i$ " - "Public Realm  $iii$ ") has historically been the Chinese "public realm" of dynamic "traditional China" since the late imperial period.

This paper further considers "Bao = third realm" as a "public realm" unique to China, where the interactive relationships between "state" and "society" are repeated and evolve together with time. The "Bao = third realm" of the late imperial period (Public Realm  $i$ ) had an autonomous logic and characteristics, the "Bao = third realm" from 1949 to the latter half of the 1970s (Public Realm  $ii$ ) was institutionalized through permeation by the state, and the "Bao = third realm"

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<sup>24</sup>It is undeniable that "Bao = third Realm" ("Public Realm  $iii$ ") poses many problems. The transformed "Bao = third realm" ("Public Realm  $iii$ ," set  $A$ ) also relates to "Western elements"  $C$  and "Centralized elements"  $D$ , and the overlapping parts at the intersection between  $A$ ,  $D$ , and  $C$  may be the "ambiguous institution" which Kato (2013) refers to. For example, the current issue of medical reform in China, specifically the issue of medical services that should be provided as public goods, adopting a "contract" approach motivated by profit is thought to be an issue arising from the overlap between  $A$  and  $D$  in Figure 2 (the intersection between  $A$  and  $D$  = region  $a$ ). An analysis by Cen *et al.* (2014) of "gray income" also considers this to be an issue arising from region  $a$ .

resulting from a policy shift in the late 1970s onwards (Public Realm *iii*) was reborn as a new "Bao = third realm" that combined the earlier two public realms.

Using a simple dynamic analysis, this paper shows that since the 1990s, "Bao = third realm" (Public Realm *iii*) has not undergone a rapid shift toward "Western elements," contrary to the former Soviet Union, and this has provided a stable social environment for China's subsequent rapid economic growth. This suggests that, it is impossible to correctly understand China without accurately interpreting its historical changes, its economic and social system in "Bao," and the unique relationship between state and society in the "third realm." We can by no means view China's social economy through the idealistic logic emerging from Western experience. However, too great an emphasis on "traditional China" might again lead to a closed society. In that sense, a new "paradigm" is required, one able to reconcile both "Western elements" and "traditional China." We hope that the analysis of "Bao = third Realm" as China's public realm offered in this study will become a new methodology able to provide an objective, top-down view of dynamic "traditional China" and "Western elements."

## 6. Mathematical Appendix

In this section, we provide a mathematical explanation of the dynamic "traditional China" model used in the main paper. With the Chinese historical transition described above as a realistic background, the model can be expressed using the following simultaneous differential equations, that is,  $\dot{z}_t \equiv \frac{d \log(z_t)}{dt} = a \times z_t + b \times m_t$  and  $\dot{m}_t \equiv \frac{d \log(m_t)}{dt} = c \times z_t + d \times m_t$ .

Here,  $z_t$  and  $m_t$  represent "modern institutions (State A)/traditional institutions (local)" and "centralized (State B)/liberal (individual)," respectively, in period  $t$ , and  $\dot{z}_t$  and  $\dot{m}_t$  represent the time derivative of  $z_t$  and  $m_t$  (the change in  $z_t$  and  $m_t$  over time).  $a = f(\nabla_1)$ ,  $b = f(\nabla_2)$ ,  $c = f(\nabla_3)$ , and  $d = f(\nabla_4)$  are functions that describe the various elements and their relationships in this model (dynamic system). For the sake of simplicity, we shall not specify each function here. We assume  $f(\nabla_1) > 0$ ,  $f(\nabla_2) > 0$ ,  $f(\nabla_3) > 0$  and  $f(\nabla_4) < 0$ . This model (dynamic system) can therefore be visualized using the following phase diagram (Figure 3):

(Figure 3)

Quadrants I to IV correspond to Figure 2 in the main text, and as shown in Figure 3, from  $\dot{z}_t = 0$  and  $\dot{m}_t = 0$ , this model can be further divided into four regions  $\omega_1$  to  $\omega_4$ . Since the direction (sign) of change of  $z_t$  and  $m_t$  is fixed in each region, we can confirm how this model changes "dynamically" over time. Changes in  $z_t$  and  $m_t$  in each region can be summarized in the table below; note that some parts of the two quadrants overlap in each region. Dynamic changes (movement) in each region can be understood as follows: For example, in region  $\omega_1$ , the change in  $z_t$  and  $m_t$  is shown as  $z_t \downarrow$  and  $m_t \uparrow$ , which means that  $z_t$ , representing modern institutions (State A), gradually weakens, while  $m_t$ , representing liberalism (individual), gradually strengthens. By contrast, region  $\omega_3$  shows the opposite trend, that is, modern institutions (State A) gradually grow stronger while liberalism (individual) gradually weakens (centralized rule strengthens). Regions  $\omega_2$  and  $\omega_4$  present cases where both modern institutions and liberalism are weak, or strong, respectively.

Table 2

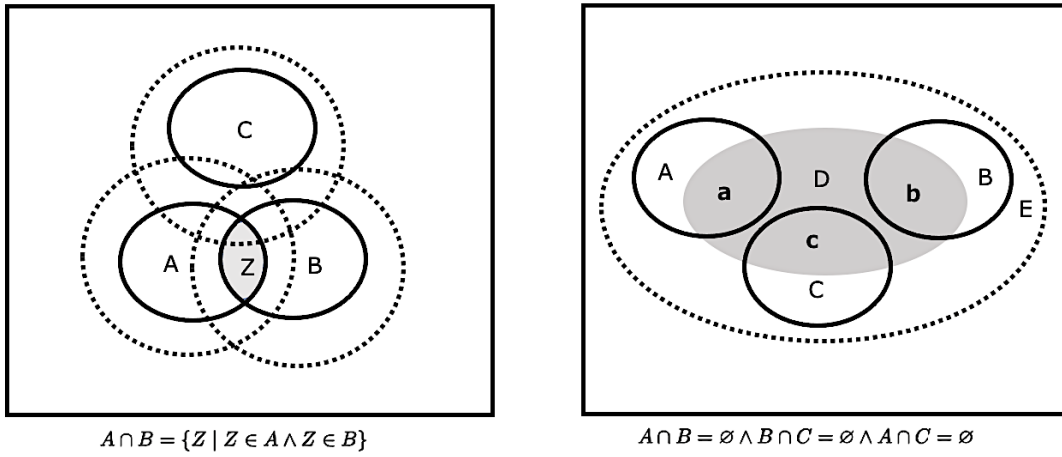
		$\omega_1$	$\omega_2$	$\omega_3$	$\omega_4$
$z_t$ :	Contemporary Institutions(StateA)	$z_t \downarrow$	$z_t \downarrow$	$z_t \uparrow$	$z_t \uparrow$
	Traditional Institutions(Local)				
$m_t$ :	Liberalism(individual)	$m_t \uparrow$	$m_t \downarrow$	$m_t \downarrow$	$m_t \uparrow$
	Centralized(StateB)				

In this model (dynamic system), there is only one stable time path towards the steady state (a stable state where the origin,  $z_t$ , and  $m_t$  are all unchanged) (the characteristic equation in this model is  $v^2 - Trace \times v + Det = v^2 - f(\nabla_1) \times v + [f(\nabla_1) \times f(\nabla_4) - f(\nabla_2) \times f(\nabla_3)]$ ). Since  $f(\nabla_4) < 0$ ,  $Det < 0$ . However, since  $Trace = f(\nabla_1) > 0$ ,  $v_1 \times v_2 < 0$ , saddle stability is satisfied. This is the time path (Line  $l$  = saddle point path) toward the origin (saddle point) in regions  $\omega_1$  and  $\omega_3$ . Where the initial values of  $z_t$  and  $m_t$  (starting points) are on that path (Line  $l$ ), both  $z_t$  and  $m_t$  converge on the (stable) steady state; however, in all other cases they diverge (move away from the steady state).

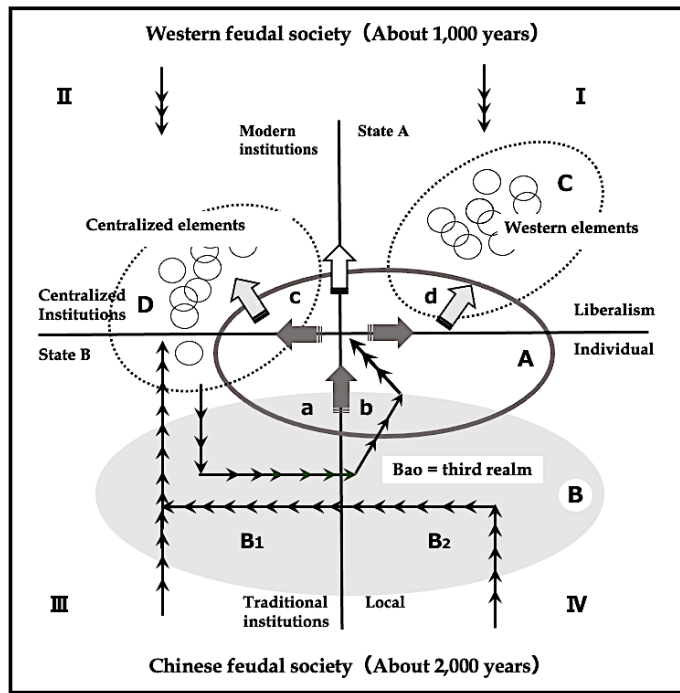
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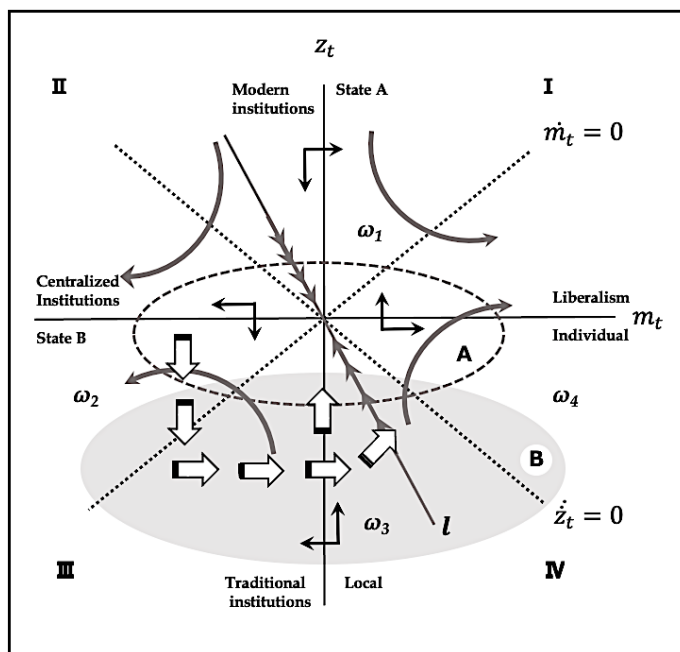
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(Figure 1)



(Figure 2)



$$B_1 \cap B_2 = \emptyset \wedge B_1 \cup B_2 = B;$$

$$A \cap D = \{a | a \in D \wedge a \in A\}; A \cap C = \{b | b \in C \wedge b \in A\}$$

(Figure 3)