

Socialism with Chinese Characteristics?

CHUN LIAO:

The Governance Structures of Chinese Firms. Innovation, Competitiveness, and Growth in a Dual Economy

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Springer, 202 p.

The book under review portrays China as an instance of state-driven late modernization. For decades, China shared the characteristics of communist development dictatorships: one-party rule, state ownership, and an emphasis on the development of heavy industry in order to become independent in technological and military terms. Surprisingly for outside observers, it opened up to the global economy during the 1980s. Nevertheless, as the author states, this must be understood as a continuation of the same state strategy but by different means after it had become clear that the old system would not deliver the technological and economic resources needed to catch up with the US and the EU. Technological modernization has been, and remains, the »cornerstone of the state's economic development strategy« (p. 54). Flexible adaptation to changed global conditions sets China apart from post-communist reformers in Eastern Europe, which regarded a »jump to the market« (Sachs) as the key to societal transformation.

Even 30 years after Deng Xiaoping's »Second Revolution« started, how this amazing policy shift and its implications are to be understood remains controversial. It has always been unsatisfactory to subsume China under the general concept of »countries in transition« (as in the early standard classifications of the international financial institutions). There have been many attempts to capture the specifics of Chinese transformation: authors such as Włodzimierz Brus refer to a »Soviet–Chinese divergence« in terms of political control to explain China's success story in contrast to the transformational crises in Eastern Europe; Jeffrey Sachs points to China's specific development potential (especially a large, unproductive rural sector and the absence of welfare state institutions); while Joseph Stiglitz stresses the gradual character of the Chinese reforms in contrast to IMF-style »shock-therapy.«

General theories of transition to »something else« than a planned economy or classifications based on the growth potential of »reform economies« tell us little about the type of capitalism which has emerged in China. Therefore, Mrs Liao's relatively new perspective on the Varieties of Capitalism approach, which operates on a more concrete middle-range level of theory-building, is promising. The Varieties of Capitalism perspective seems flexible enough to integrate the interaction and complementarities of a broad spectrum of institutions which together characterize specific types of political economy. Generally, this approach allows for complex combinations of variables, such as ownership and control, industrial

relations, central bank policies, tax regimes, the role of the banking sector as distinct from the stock market, profiles of manufacturing sectors, and so on. This is a significant methodological advantage, since it makes it possible to develop the often insufficiently differentiated concept of »path dependency« from earlier historical conditions to specific processes of institutional complementarities, continuities, and divergences.

Mrs Liao's theoretical approach, which combines Richard Whitley's theory of business systems with Stuart Hall's and David Soskice's concept of coordinated market economies, focuses on a subset of these variables, namely the (re-) allocation of property rights, corresponding modes of governance, and the results of institutional (re-)combinations in terms of technology transfer, organizational modernization, financing, and economic growth. Compared to the British-American, Japanese-German, and the Taiwanese political economies, the Chinese model is characterized as a hybrid: a private sector ruled by the competitive logic of liberal markets co-exists with a state-owned sector which uses several techniques of inter-enterprise coordination.

This is important in grounding two of the author's main points. First, the governance structure of the state sector, often neglected and rarely understood in Western analysis (for example, by Redding and Witt: 2008) has been transformed since the mid-1990s, so that state ownership is differentiated from bureaucratic control, as well as from firm management. Second, foreign direct investments from Western countries tend to flow to sectors or regions where they find institutional complementarities. A clear demarcation between the state and the private sector, a defining element of China's dual economy, reduces, on the one hand, the risk of government interference in or subsidized competition with foreign investments, while, on the other hand, certain Chinese industries are protected from foreign competition, so that the breakdown of domestic industries over a wide area, as seen in Eastern Europe (and as intended by »shock therapy«), has been prevented.

The empirical parts of the book provide an informative overview of the diversity of Chinese enterprises, including governance structures in the private sector. Informality is a key feature: written labor contracts are often lacking, but firms remain highly centralized and under personalized control. Management in the private sector functions differently from the more bureaucratized and formalized state sector. Mrs Liao offers many interesting findings, for example, »that the German production model can easily persist in China« (p. 153). This is explained by the regional patterns of FDI in China, in this case by the preference of German firms for investing in regions with advanced institutional infrastructure. Some assumptions about outsourcing to China are rejected. Against neoliberal »common sense,« low wages appear not to be the main reason for German firms investing in China: state-owned or controlled companies can be fairly innovative, technologically advanced, efficient, and profitable (although they also serve some social functions); less surprisingly, the state sector enjoys preferential financing

by the statist banking system, which is described in some detail. Furthermore, China seems not to be, as sometimes suggested in media reports, a labor-camp type of economy. Turning to industrial relations, Mrs Liao emphasizes the rights of workers in state-owned enterprises. According to the Company Law of 1994, trade unions not only play a role in wage bargaining but also have certain co-management rights (pp. 54–56).

Entitlements of this kind are difficult to verify, since the gap between formally guaranteed rights and enforcement by local government is notoriously wide. Moreover, the official All-China Federation of Trade Unions and the law courts do little to back the claims of laid-off workers during the restructuring or bankruptcy of state-owned enterprises, especially if the corruption of party officials and enterprise managers is involved. Unresolved and repressed worker–management conflicts are abundant (see *China Labour Bulletin*, September 2008). Experiences with the Labor Law of 1994 and the Labor Contract Law of 2008 do not seem to be encouraging (*China Labour Bulletin*, October 2010).

Part 3 of the book describes the emergence, legal codification, and growth of the private sector in several steps (or »waves of privatization«). Especially interesting is the application of selective marketization: the opening up of certain business areas for private profit-making, which are not in direct competition with the state sector. The Chinese economy therefore seems more of a »dual« than a »mixed« economy. Legal restrictions and tax disincentives block private entry into certain listed industries (pp. 94–96). New firms are concentrated in the newest technological fields. With the rapid growth of this sector the family-centered governance system and ownership structure (re-imported from Chinese firms overseas) are turning more and more into limited liability shareholding companies. Labor mobility is fairly high, social protection is inadequate, and unionization is low. Although loans are hard to obtain, financing via the stock market is marginal. In response to the under-institutionalization of this sector, private networking plays a prominent role. Since there is little room for autonomous business organizations or intermediate associations beyond, on the one hand, extended family networks and, on the other, the state bureaucracy, it would be futile to seek an emerging civil society in the European sense. To date, Chinese business associations have been fairly weak, as a result of which the business system is fragmented and unable to develop strategies like enterprises in industrial districts in Western countries (pp. 124–27). The absence of a self-conscious middle class may also explain why China's transition has not been, in contrast to Eastern Europe, also a transition to democracy – a connection which Liao does not explore.

Foreign direct investment and technology transfers come into the picture in Part 4, which also presents Liao's explanation of China's extraordinary growth over two decades: China's dual economy enables it to reap the benefits of two different processes of convergence to two different production regimes. While the

private sector attracts FDI mainly from liberal market economies, the state sector is preferred by countries with a coordinated market model. The composition and technological spillover effects of FDI are briefly outlined in support of the argument that foreign investors seek complementarities with regard to their own production models. While US manufacturers use China largely as a low wage zone (especially in the Special Economic Zones) and, it might be added, the American Chamber of Commerce is strongly opposed to recent legislation to unionize foreign-owned enterprises, Japanese and German investors are more interested in stable institutional environments and long-term commitments and therefore prefer regions with a strong presence of Chinese state-owned or state-controlled firms.

Mrs Liao's central thesis of dual convergence, which points to demonstration effects deriving from various models of advanced capitalism, is quite original and opens up new ways of looking at the Chinese economy. The data presented to corroborate this thesis refer nevertheless mainly to indicators of the regional proximity of foreign investments to domestic industries, which is interesting but not entirely compelling. While the bulk of Chinese exports are produced by the two poles of the Chinese economy – 41 percent by state-owned enterprises and 50 percent by foreign invested firms (see Feenstra and Wei 2010: 97) – this does not confirm that the intended productivity and technology spillovers from FDI to the state sector are actually happening. The sophisticated structure of exports from China may indicate rather a dualistic than a dual economy: data covering the period from 1995 to 2005 show that foreign invested firms, while employing only three percent of the labor force, account for about 20 percent of the Chinese economy and roughly 40 percent of its recent growth (Blonigen and Ma 2010: 477).

One might also expect Mrs Liao to relate her findings to other explanations of China's supergrowth, for example, Paul Krugman's much more modest characterization of East Asian growth rates as a mere »input revolution« (Krugman 1994). Sometimes it seems that Mrs Liao shares the obsession of the Chinese leadership with growth (although she avoids the official talk of »Socialism with Chinese Characteristics«). Many important sociological aspects do not come into view, such as the widening rift between rural and coastal China and the dramatic increase of inequality which leads some authors to speak of two (mainland) Chinas. Inequality and poverty, a strong focus of the Varieties of Capitalism literature, are not thematized. This is regrettable, since social cohesion is clearly related to the sustainability of a production regime. And when even the leadership admits that environmental degradation due to lax pollution controls eats significantly into the growth numbers, this casts some doubt on Mrs Liao's perhaps too optimistic outlook on her country's long-term economic growth and higher stability compared to competing varieties of capitalism.

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SEBASTIAN BUCIAK / RÜDIGER VON DEHN (Hrsg.):

Indien und Pakistan – Atommächte im Spannungsfeld regionaler und globaler Veränderungen

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Die südasiatische Region in ihrer Gesamtheit und Komplexität gewinnt international immer mehr an Bedeutung, wobei die wissenschaftliche Diskussion verstärkt auf die indisch-pakistanischen Beziehungen und die nukleare Aufrüstung in der Region gerichtet ist. Der umfangreiche Sammelband *Indien und Pakistan – Atommächte im Spannungsfeld regionaler und globaler Veränderungen* umfasst 22 Beiträge von 25 Autoren und untersucht diese Thematik aus historischer, wirtschaftlicher und politikwissenschaftlicher Perspektive.

Um die gegenwärtigen Beziehungen zwischen Indien und Pakistan auf regionaler und internationaler Ebene zu verdeutlichen, wird dem Leser in den ersten Kapiteln (Kapitel 1–5) die Geschichte Indiens und Pakistans mit dem Fokus auf die regionale Sicherheitspolitik und den Demokratisierungsprozess nähergebracht. Bezüglich des historischen Kontextes ist der Text von Amit Das Gupta »Indiens sicherheitspolitische Wende zwischen 1962 und 1974« zu empfehlen.