Book Review

Contemporary Chinese Political Economy and Strategic Relations: An International Journal Vol. 5, No. 1, April/May 2019, pp. 493-507

Book Review

Ling Chen (2018), *Manipulating Globalization: The Influence of Bureaucrats on Business in China*, Stanford, CA: Stanford University Press, 232 pp. + xvii.

In her exciting book Ling Chen, an Assistant Professor of Comparative Politics and Political Economy at John Hopkins School of Advanced International Studies (SAIS), presents the emergence and co-existence of varied local forms of capitalism in China in the era of globalization. Chen, who holds a Ph.D. in Political Science from John Hopkins University, Baltimore, finds the origin of these different models in the historical tradition, the authoritarian character of the Chinese state and the interests of the influential local bureaucrats. She describes the two basic forms of the Chinese capitalism in great details and illustrates them by the examples of the cities of Suzhou and Shenzhen on the Yangtze River delta and the Pearl River delta. This way the author goes far beyond the monolithic approach widely used by Western scholars.

Bureaucrats, Companies and Economic Policies in Globalized China

The first chapter of Chen's book starts with an anecdote. In 2005, China's Trade Minister at the OECD Conference in Paris tried to convince participants that China is not a threat to the manufacturing industry in other countries. He argued that "China should give 8000 million shirts in exchange for a Boeing A380 aircraft". His speech raised a great deal of resonance in China, where by this time many people questioned the sustainability of production based on cheap labor and modest profit margins and demanded a radical transformation of the manufacturing industry. By this time, China's manufacturing industry had already switched from textiles to the production of computers and mobile phones, which was facilitated by globalization. The problem was that the production of high-tech products was accompanied by low innovation, which highlighted the need for an economic policy turnaround to avoid the "middle income trap". The Chinese state intervened. As before, when attracting foreign direct investment (FDI) with significant discounts, it launched a major program to promote technological development, including low-cost corporate loans, tax breaks, free land use and reduced rates of public services, duty-free, etc. It was assumed that officials would enforce this central will locally, and that this new economic policy would be effective. In practice, however, this central economic policy led to very different results locally.

The purpose of Chen's book, *Manipulating Globalization: The Influence of Bureaucrats on Business in China*, is to explain the reasons for these differences. It explores the roots of this heterogeneity and the role of officials in the different realization of central will in various regions of China.

The author reminds us that China's transformation took place in two stages. In the first phase of FDI attraction China, along with the other BRICS countries, has entered a new generation of globalized economies, where FDI played a much more important role than in the formerly industrialized East Asian countries (Japan, South Korea, Taiwan). In the second phase, in the 2000s, economic policy aimed at attracting FDI was replaced by a technology upgrade aimed at raising the level of domestic technology development. However, the latter did not completely squeeze out the former economic policy, but both were present and competing with each other, creating tensions and contradictions between offices and bureaucrats working in different areas of local governments to gain resources and benefits. In the first phase strong interest alliances were established between local bureaucrats and foreign investors, which in the second phase had an impact on the interpretation of central economic policy, resource allocation and local development strategies. The presence of foreign capital therefore helped or hindered the technological development of local companies. As the majority of foreign investors were not in direct contact with local decision-makers, they influenced through local bureaucrats to shape their local economic policy. For this reason, local strategies designed to attract FDI have fundamentally determined the direction and opportunities for technology development in domestic companies.

Chen reveals that in cities with large global companies that account for a significant share of exports, these companies and local bureaucrats form a strong alliance of interests. This is a compelling force and financial stake for bureaucrats in the international trade departments to create obstacles to the implementation of the new economic policy represented by the bureaucrats of the domestic technology development departments, which hinders the technological development of domestic companies. In cities that attracted smaller foreign companies, and where a large number of domestic manufacturing companies operate, and exports are less concentrated, no such strong alliances are formed because the agencies are in contact with both foreign and domestic companies. Thus, they are competing for the acquisition of central resources for the development of domestic technology, resulting in an increase in the technological level of the local industry.

The author states that the nature of FDI determines technological developments at company level. Global corporations at the top of the value chain follow a group-level offshoring strategy. According to this, foreigners subordinate domestic companies located in their value chain as their suppliers, who are forced to compete with each other, leaving no room for technological advancement. This makes it impossible to implement the central economic policy aimed at technological development at the enterprise level. On the other hand, the production strategy of foreign small "guerrilla" companies located in the middle or bottom of the value chain is subcontracting. It does not mean a strict subordination between domestic and foreign companies and enables the technological development of domestic firms. It promotes the implementation of central economic policy at company level, which is beneficial for both parties.

Chen is of the opinion that the interplay between global capital and local economic policy in China determined the direction of local development in several ways: (1) the increasing inflow of FDI favored cities that stimulate foreign investment, which brought significant benefits to local bureaucrats; (2) large foreign companies with a high export ratio formed a strong alliance with local bureaucrats, which greatly influenced how the city is implementing technological development and how much resources it spends; (3) the nature of foreign companies attracted to the city determined the effectiveness of economic policy for technological development, which had a counter-effect on urban decision-making; (4) local forms of capitalism that selectively allowed globalization to function in the interests of local officials fundamentally determine the development of local economies in China.

Attracting External Capital

The second chapter of the book deals with chasing foreign capital. It starts with mentioning that from the establishment of the People's Republic of China in 1949 to the 1979 reform and its opening, China − like many other developing countries − pursued an import substitution policy. The state promoted the development of capital-intensive industries such as steel and chemical industry, electronics and machinery, based on the import of machinery and technology and bearing in mind the needs of the military industry. During the 1978 turn, China opened its doors to the outside world, which served not only to stimulate economic development, but also to reckon with conservatives against reforms. The process began cautiously with the opening of four "Special Economic Zones" (SEZs), where foreign investors could set up joint ventures with domestic companies. In these, the foreign partner provided the raw materials, parts, samples, machines and capital, and the Chinese partner the production and assembly, and the final product was re-exported by the foreign company. Although the 1979 "Joint Venture Act" states that the foreign party is required to transfer technology to the Chinese side, the primary purpose of establishing joint ventures was not to acquire foreign technology, but to increase foreign exchange reserves through export promotion and export. This phase laid the groundwork for strongly promoting foreign direct investment (FDI) and establishing "Economic and Technology Development Zones" (ETDZ) to take over advanced technology. To this end, these zones were given the same benefits as the SEZs, but they had to meet higher expectations in terms of technology, management, knowhow, and external relations − the so called "four windows".

The book describes that in this environment, the "market for technology" policy gradually became the guiding principle of central economic policy. The market was widely understood, including reexport, and technology was required to meet China's needs. However, as the author concludes, the joint ventures of Chinese and foreign companies did not bring the expected results due to cultural differences. These joint ventures were almost immediately integrated into the foreign parent's global outsourcing strategy, and they did not gain access to the technology developed by the parent company, which was also reinforced by the lack of intellectual property protection in China. The Chinese partner was not encouraged to undertake research and development because it was not in the interest of the parent company. In this way, the central intention and the results achieved in the joint ventures became increasingly distant. However, surprisingly, it did not take away the incentive to attract foreign direct investment but re-interpreted the "market for technology" principle and wanted to implement it on a larger scale than before.

To this end, the central government proposed a selective set-up of joint ventures after 1987-89, and instead of the former "four windows" it defined "three main focus areas". These include attracting foreign investment, industrial development, and increasing foreign exchange reserves through exports. This involved two very significant changes: on the one hand, the approval of foreign investment was delegated to local governments, and on the other hand, the number of ETDZs was increased to thousands. Because the evaluation of cadres was first and foremost tied to the achievement of economic goals, and the easiest way to achieve them was through foreign direct investment, a very large number of local governments tried to attract foreign capital in every way and therefore offered potential foreign partners a competitive advantage. Two different models emerged: one for large multinational companies and another for small foreign guerrilla companies. While the first model hampered, the second promoted technological development as a central intention.

From Foreign Direct Investments to Domestic Competitiveness

The third chapter explores the way from attracting FDI to fostering domestic competitiveness. The acceleration of technological development was formulated as a goal from the end of the 1980s through domestic innovation, whose roots go back to the Mao period. Chen thinks that prior to this, state-owned technology organizations were not related to the business world but to the scientific community, and research results and technological progress did not have a significant impact on the development of the Chinese economy. In the economic life adoption and introduction of foreign technology was in the focus.

From the mid-1980s onwards, a kind of "technonationalism" began to appear – using Chen's expression. High-tech development zones (HTDZs) have been created to attract domestic talented researchers and developers to high-tech industries based on Chinese technological capabilities. In the first half of the 1990s, several medium- and long-term science and technology plans were developed to create a national system of technological innovation, R&D and independent research. In 2001, indigenous innovation was first set as a primary goal to accelerate industrial development and continuous renewal in key high-tech sectors. Subsequently, many new HTDZs and thousands of local development zones were established. Instead of encouraging the FDI, which was supported by government agencies dealing with foreign investment and trade, the promotion of domestic innovation was at the heart of economic policy, supported by government agencies dealing with science and technology policy. This forced stricter requirements for foreign investors; for example, in order to promote technological development, they were required to set up R&D centers in China. This shows that FDI support agencies also recognized the importance of domestic innovation and technological development and incorporated it into their expectations. This is also reflected in the use of the "Created in China" password instead of "Made in China".

The chapter concludes that in China, domestic innovation became a national priority, which is expected to make China's economy a technological power by 2020 and a world leader in technology by 2050.

Local Economic Policy, Globalized Interest Coalitions and Resources Allocation

The fourth chapter of the book focuses on the impact of global coalitions on local policy making and resources allocation. The author highlights that in 2006, the Hu-Wen Administration centrally announced an economic policy based on support for domestic innovation, for which large sums of money could be spent by Chinese cities from 2007 onwards. In parallel, the benefits (tax, land provision, public services) enjoyed by foreign companies were gradually withdrawn. Local governments also announced the new line, but there were serious internal struggles between the two groups of institutions and bureaucrats at the local level. Institutions and bureaucrats in charge of international trade gained considerable influence and benefits during the period of support for foreign direct investment, thus their interests were violated by the new institutions and bureaucrats who supported the development of domestic technologies. The implementation of the new central economic policy was thus greatly influenced by the advocacy of these two groups. The book reveals that economic policy processes at the level of local governments are determined by two regularities: the top-down liability system supported by the cadre evaluation system; and divisions and competition to achieve political goals, the three main areas of which are the struggle for survival, the local rulemaking and the establishment of alliances with economic actors.

The author illustrates the role of local interest relationships by describing the development of four major Chinese coastal cities (Suzhou, Wuxi, Ningbo and Shenzhen) of nearly the same size and economic potential. Chen draws the attention to the fact that these cities are significantly different in terms of the nature of the foreign companies settled in them, and thus form four different types. Suzhou and Wuxi are cities where foreign companies are also the largest exporters, many of which are multinationals and partners of international trade institutions and bureaucrats. They saw a serious threat in the new economic policy aimed at promoting domestic innovation and tried to prevent it from being implemented. In contrast, Shenzhen and Ningbo attracted foreign companies to a similar extent, but they are not determinative in their exports. Institutions and bureaucrats responsible for international trade therefore did not see the new direction as threatening, as there were plenty of domestic companies among their partners. Domestic companies were also partners of institutions and bureaucrats responsible for technology development, so the two camps of bureaucrats were not sharply opposed to each other. The competition here took place within institutions responsible for technological development, primarily for acquiring foreign investors engaged in research and technology intensive activities. Out of the four cities, Shenzhen helped the best to implement the new economic policy to promote domestic innovation, Suzhou did the least, Ningbo and Wuxi were between these two.

The Effectiveness of State Intervention and Economic Policy at the Company Level

The fifth chapter examines how effective state intervention and economic policy is at the company level. The author holds the view that it varies greatly between cities. The effectiveness of economic policy means to what extent public economic policy changes the behavior of companies in the desired direction. The key issue is when government grants work properly, i.e. when companies respond to expectations of local bureaucrats by investing in technology.

Chen provides evidence that the type of foreign companies that the local government attracted to the city had a strong impact on local production and thus on industrial development. Together, the local government and the established foreign companies created an environment that determines the opportunities for technological development for domestic companies. Where large foreign companies at the top of the value chain dominate, domestic companies are not encouraged to invest in technology development. However, in cities that attracted smaller foreign companies that are not dominant in local exports, domestic companies are encouraged to invest in technology development.

The author illustrates the very different local realization of the central economic policy with the example of electronics and manufacturing. Her research results show that companies that receive more state support are generally more active in technology development. For companies operating in various cities, the average size of resources devoted to technological development and the efficiency of government economic policy vary considerably. The higher the median value of the size of foreign companies expressed in the value of their assets in the electronics industry of a city, the lower the efficiency of government economic policy among domestic companies. This means that if large global companies are present in the electronics industry of a city, then domestic companies will be less responsive to the government's policy of technological development than in the cities where smaller foreign companies have settled. This shows that although government support generally contributed to raising the technological level of domestic electronics companies, the size of foreign companies limited the effect of the state intervention in some cases.

The chapter concludes that as a result of globalization, major economic partners of the developmental state in China were foreign companies rather than large domestic companies. This fact influenced not only the "willingness" of the government to promote technological development, but also the efficiency of the implementation of economic policy.

Changes in the Perspective of Historical Capitalism

The sixth chapter of the book raises the question: why did Chinese bureaucrats choose very different foreign companies as their partners in the same political system and economic policy framework? Why were the original preferences fixed? Why did the development paths not come together?

The author's opinion is that the historical process of the evolution of state preferences played a decisive role in the formation of local capitalist models. In the post-Mao era, bureaucrats were strongly encouraged to promote local economic development through business-to-business cooperation. However, the goals of the bureaucrats were different: for those who were primarily driven by political goals, they made an alliance with the big companies at the top of the value chain, leading to a top-down development model; for those who had primarily economic goals, they generally preferred smaller foreign partners, resulting in a bottom-up development model. Thus, the emergence of different local versions of capitalism and the emergence of different regional development models were rooted in the personal goals pursued by bureaucrats.

It is a merit of the book to diagnose that the nature of capitalism in China is dual. On the one hand, it is "state capitalism" or "development autocracy", where the strong development state transforms the economy from the top through strategic planning and the means of state intervention, provides resources for large state monopoly companies at the expense of local private companies. On the other hand, there are also bottom-up mechanisms based on flexible practices, gradual experience and adaptive strategies, which are smaller, but often the drivers of institutional and political change. According to some analysts, one or the other of these two opposing models dominate in a given period, while others argue that they exist together in a dialectic relationship.

Chen notes that these approaches do not consider the regional perspective of Chinese capitalism, which has existed for decades, although various regional models of capitalism can be seen in the study of local economies. Local bureaucrats played a key role in creating regional models of development. They responded differently to the central economic policy, based on their political or economic goals and interests, and formed a narrower or broader alliance with their business partners who belonged to different business circles. This then determined the typical type of capitalism in each region, which is embedded in local customs, norms and institutions, and over time defines the development paths of each region. The significant role of the bureaucrats in determining the path of development derives from the authoritarian nature of the Chinese government and from the relative underdevelopment of the market institutional system.

The book presents two different development models exemplified by the economy of the Yangtze River and the Pearl River Delta. Their development and characteristics are described in detail from the late Qing and early Republican era (1895-1920) through the Mao era (1949-1978), until the era of the post-Mao development state (1979-1990), proving the author's concept of the dual development model in China.

Implementing Economic Policies

The last chapter of the book is about implementing economic policies at local level. The author draws her readers' attention to the fact that in China, local government also plays a prominent role in the era of globalization and capitalism as a result of the authoritarian nature of power and decentralization. For this reason, significant differences appeared between the interpretation and implementation of the central economic policy among the various regions, and therefore various forms of capitalism emerged in China. Some local governments placed large multinational companies in the forefront for maximizing their political performance, while others preferred smaller foreign companies to maximize local revenue. When the central government focused on increasing competitiveness, some of the local bureaucrats felt threatened and tried to weaken the new policy, while others tried to maximize the use of locally available resources. In this way, the unified central economic policy has led to the emergence of locally different paths of development, unlike in the capitalist systems of developed democratic countries.

In addition to the two basic types of Chinese capitalism formed in the delta of the Yangtze River and the Pearl River, there are also many intermediate models of regional development that mix different elements of these two types. The development models specific to each region are long-lasting and not influenced by local leaders, such as mayors.

Chen suggests that it is worth comparing China's development with the models of other countries aiming at vigorous progress. In the period prior to globalization, before the 1990s, the development model based on state support for large domestic corporations dominated and was very successful. This was coupled with an export incentive, and domestic companies were encouraged to improve their global competitiveness by various means. This solution is known as the East Asian development model and was followed by Japan, South Korea and Taiwan. In the period of globalization, since 1990 – called the global outsourcing period – the inflow of foreign direct investment to developing countries wishing to catch up, opened a new era in the relationship between the state and the economy. The main partners of the state became foreign companies, who determined the development possibilities of domestic companies, hindered or promoted it. The simultaneous presence of domestic and foreign companies made the relationship between the state and the economy more complicated. The main challenge was not the power of the state against the economic actors, but how the divisions within the state and, consequently, the competition between the different groups of the state apparatus affect the choice of the preferred economic actors, the economic policy and its implementation. This is also the case for Vietnam, Singapore, Thailand and Malaysia, who want to catch up.

The author adds that China has meanwhile become a working capital exporter in Africa, Latin America and elsewhere, which poses new challenges. She firmly believes that the role of the state and bureaucrats remains key, as it is up to them to determine how China can meet these new challenges.

Evaluation Thoughts

Ling Chen's book *Manipulating Globalization: The Influence of Bureaucrats on Business in China* is based on an extremely versatile, thorough analytical work. In addition to a comprehensive review of literature, she relies on in-depth interviews and surveys conducted during her long field work in China and on statistical data collection and analysis. Her sources are reliable. The structure of the book is logical, and its chapters are enjoyable in themselves, although they sometimes contain repetitions.

The reviewer is convinced that the book greatly contributes to a better understanding of the economic policies of authoritarian systems and the nature of Chinese capitalism in a globalized world. A novel analysis of the role of state-led development and the role of the interest alliance of bureaucrats and actors in the economic life provides lessons for countries seeking to catch up with the momentum.

Mária ***Bábosik***
Central Bank of Hungary /
University of Pécs
Hungary

Mária Bábosik is a senior analyst at the Central Bank of Hungary in Budapest, and a PhD student at the University of Pécs in Hungary at the Doctoral School of Earth Studies in the Geopolitical Program. She has a degree as economist from the Budapest University of Economics, specialized in international trade. After graduation she worked as a research fellow at the Institute of World Economics of the Hungarian Academy of Sciences and focused on economic integrations. Later she moved to management consulting and had management positions at HayGroup and PwC in Hungary. She is a Chartered Management Consultant, author of articles in HR and taught HR management at various university courses in Hungary. Currently her research interest is development economics, international financial institutions, foreign aid and Europe-Asia relations. Her PhD thesis will be on fostering transition and sustainable development in Central Asia. *<Email: babosikm@mnb.hu>*