

Global Liberalization and Domestic Accommodation: The Case of the Chinese Socialist Market Economy*

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In the current age of global liberalization, the ways of accommodating such liberalization at the state level are never uniform. What, then, are the factors that determine accommodation under global liberalization? This study tries to address this question by constructing a political-institutional model that links system-level globalization and state-level politics of accommodation. The model stresses political rationality rather than economic rationality and political institutions by which political rationality is bounded. This study also analyzes the Chinese socialist market economy as a typical case of the political-institutional model.

Keywords: global liberalization; domestic accommodation; political-institutional model; Chinese socialist market economy

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Globalization is a process of freer, wider, and faster movements of men, money, and goods due to technological advances and reduction of political barriers. Globalization thus expands and integrates transnational economic relations. As a consequence, it increases transnational inter-

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dependence and creates what can be called the "world economy." At the same time, globalization spreads political and cultural ideas and institutions, which tends to homogenize the world. It is a system-level process.

The key element of globalization is economic liberalism. Economic liberalism is based on a set of beliefs and assumptions that when money, labor, and goods are free to move in pursuit of profits without external barriers, not just individuals' but also societal and national wealth are maximized. Therefore, an open market and free trade and investment are crucial elements of economic liberalism. In fact, the world economy has been continuously liberalized, with more markets and increasing trade and investment since its formation in Western Europe in the sixteenth century.

Economic liberalism has been extended and intensified more than ever in the post-Cold War world and under the World Trade Organization (WTO). With the Cold War and ideological rivalry ended, international relations have extended into the former socialist blocs. Furthermore, all the former socialist countries are in the middle of the transition to a market economy and liberal democracy. The WTO system, in turn, has institutionalized more extensive and intensive economic liberalism.

However, the ways of accommodating global liberalization at the state level are never uniform. We face intense political conflicts regarding the extent of accommodation and the direction of adjustment in the face of system-level global liberalization. Accommodation and adjustment can give rise to new cleavages and realignments among domestic sectors, factors, and regions. In general, advanced countries in Western Europe and North America have pressed for more complete liberalization, while East Asian and Latin American newly industrialized countries (NICs) are struggling to accommodate liberalization pressures and adjust to them. But neither advanced countries nor NICs are free from domestic conflicts regarding accommodation and adjustment. In May and June 1997, the British and French electorates changed their governments in favor of more controlled liberalization. Furthermore, Mexico's longtime ruling party—the Partido Revolucionario Institucional (PRI)—lost its majority after a series of liberalization programs since its participation in the North American Free Trade Agreement (NAFTA) and the Organization for Economic Cooperation and Development (OECD).

The former socialist countries are no exceptions, either, as Russia, Hungary, and Poland, among others, are all in the middle of the transition to a market economy. Global economic liberalization has been a crucial factor that caused the breakdown of these formerly closed communist regimes, which could not bear the costs of closure in a world of accelerating economic liberalization. Furthermore, they have faced the additional task of installing democratic institutions at the same time. China and Vietnam are also in the process of reforming their planned economy more or less toward a market economy. China, withholding any political liberalization thus far, has proceeded successfully in building what it calls a "socialist market economy."

In Western Europe and North America, where capitalism and democracy have evolved for centuries, accommodation and adjustment in the face of global liberalization have not raised serious domestic challenges as in other regions. However, East Asian and Latin American NICs, which have followed rather illiberal paths of development, face more serious challenges in accommodating global liberalization. Furthermore, former or current socialist countries are afflicted with the most serious challenges in installing liberal institutions, both economic and political, while simultaneously competing in the liberalizing world economy. Indeed, they are undergoing a "natural experiment" of political economy.¹

What opportunities and constraints, then, does global liberalization at the system level raise for domestic politics among political and economic actors? What factors determine accommodation at the state level? First, this study will try to answer these questions by drawing a model that links system-level globalization and state-level domestic politics. The model stresses political rationality rather than economic rationality and political institutions by which political rationality is bounded. Then, the Chinese socialist market economy will be analyzed as a typical case of the political-institutional model.

¹William H. Riker and David L. Weimer, "The Political Economy of Transformation: Liberalization and Property Rights," in *Modern Political Economy: Old Topics, New Directions*, ed. Jeffrey S. Banks and Eric A. Hanushek (New York: Cambridge University Press, 1995), 80-107.

The Political Economy of Domestic Accommodation

What costs and benefits do domestic actors assess given global liberalization? How are specific policies and institutional changes determined in response to global liberalization? More broadly, how is globalization linked to domestic politics? To address these questions, we will examine socioeconomic, political, and institutional factors that intervene in the linkage between global liberalization and domestic accommodation.

Globalization and the National Economy

How does globalization of economic liberalism affect the national economy in general? Global liberalization manifests itself as more and faster flows of goods and money, and increasing trade and investment. Increasing trade and investment implies decreasing costs and/or increasing gains in international transactions. In other words, globalization is a process of easing international transactions and decreasing transaction costs. Jeffrey Frieden and Ronald Rogowski thus operationalize globalization as "exogenous easing" of international transactions on the part of domestic actors.²

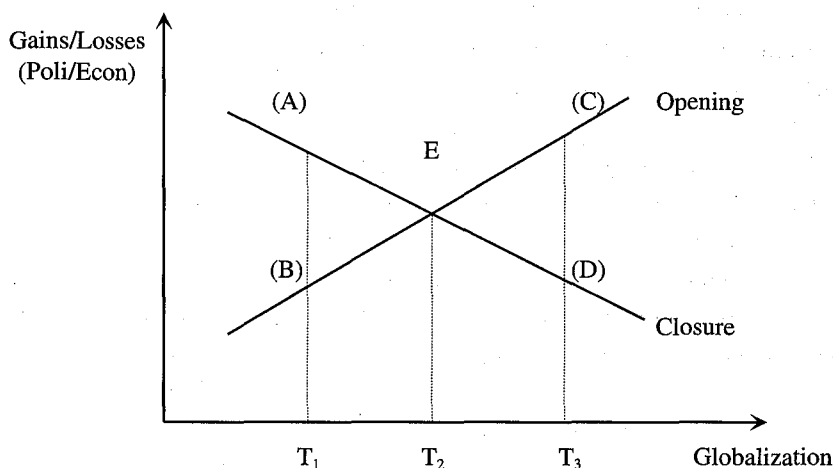
Under the condition of global liberalization, where transaction costs decrease and potential gains increase, if firms or states do not participate in international transactions, it will increase national opportunity costs. Thus, as globalization proceeds, the cost of closure increases.³ As international transactions become easier, the national cost of closure increases and the impact of the world economy on the national economy also increases. A state keeps partial or total closure to protect its infant industry or prevent political instability. For authoritarian or totalitarian regimes, the most important reason for closure is political gains exceeding economic losses, as we find in former East European communist countries and currently in North Korea.

²Jeffrey A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytical Overview," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (New York: Cambridge University Press, 1996), 25-47.

³*Ibid.*, 33-34.

Figure 1

Gains and Losses of Opening and Closure with Globalization*



*The different slopes of the opening and closure curve will lead to different timing for opening. In other words, point E at T_2 may vary depending on the slopes of the opening and closure curve, which in turn is a function of domestic socioeconomic conditions.

Let us assume that a country is on side (A) of the closure curve. As globalization proceeds, i.e., as the economic loss of closure (T_1B) increases, the net gain of closure (AB , i.e., political gain of closure, T_1A , minus economic loss, T_1B) will decrease; and at a certain point, the net gain of closure will be zero, where economic loss will amount to political gain (point E at T_2 in figure 1). At this point, a regime may face two choices: one is to continue closure and the other is to open.

If a regime continues to keep closed beyond point E advancing to side (D) of the closure curve, economic loss will continue to accumulate, exceeding the political gains of closure and hence increasing the cost of political stability (CD). When the cost of political stability reaches a certain point, the regime may collapse. The former East European communist regimes continued to keep closed even after they passed point E, with economic and political costs of closure mounting unbearably, which ultimately led to their collapses in the late 1980s and early 1990s. In other words, they continued to follow the closure curve from (A) to (D), at some point of

which they collapsed, as they were unable to bear the mounting cost of closure that far exceeded its political gain.

If a regime turns to open at point E, thus moving on to side (C) of the opening curve, then the regime will begin to acquire an increasing positive net gain (CD, i.e., the economic gain from opening minus political cost of potential instability). If it successfully proceeds to open up, political stability will increasingly rely more on legitimacy from increasing economic gains rather than on coerced closure, which may portend a possible political liberalization in the future. This may be the case of current China, which sought to open up the economy at some point around E, probably in the late 1970s, turning from the (A) side of closure to the (C) side of opening. Since then, the Chinese reform leadership has successfully mobilized potential beneficiaries of economic opening, with its political stability based more on increasing economic wealth from opening rather than on coerced closure.

Socioeconomic Actors' Interests and Preferences

However, the transition to opening does not occur automatically. In the process, all the related actors demand and resist opening, depending on their economic and political interests. Furthermore, their interests are constrained by existing social and political institutions.

First, how does globalization affect socioeconomic actors' interests? And how does it affect their policy preferences? Let us review here what Frieden and Rogowski raise about the effects of globalization on the interests and preferences of socioeconomic actors.⁴

According to the Heckscher-Ohlin model and its extension of the Stolper-Samuelson theorem, a country tends to export goods intensive in the factors it has in abundance, and to import goods intensive in the factors in which it is scarce. Thus, exogenous easing of trade benefits owners of abundant factors, but harms owners of scarce factors. Thus, owners of abundant factors demand for liberalization, while owners of scarce factors

⁴Ibid., 37-42.

are against liberalization.⁵ As Frieden and Rogowski elaborate, developed countries have relatively abundant human and physical capital but scarce unskilled labor, while less developed countries (LDCs) have abundant unskilled labor but scarce human and physical capital. Therefore, in developed countries, capitalists and skilled workers will push for more liberalization, while unskilled workers resist it. In LDCs, however, abundant unskilled workers will press for liberalization, while owners of physical and human capital will attempt to restrict it.⁶

An alternative view, the Ricardo-Viner model, attends to specific industrial sectors rather than particular factors of production. The United States, in general, is capital-abundant and labor-scarce. Thus, global liberalization should benefit capital and harm labor. However, if both capital and labor are employed in an import-competing sector, like the American automobile industry, both are harmed. It is argued that the sectoral pattern has more often characterized postwar American trade lobbying. According to this model, therefore, global liberalization will lead to not conflict between capital and labor, but conflict between internationally competitive and uncompetitive industrial sectors.⁷

Finally, in sectors characterized by economies of scale (EOS), the opening of world markets benefits larger firms over smaller ones. Larger firms, by definition, realize EOS and, thus, raise competitiveness. Furthermore, they are more likely to raise "total factor productivity" (TFP) that results from innovation, technological adoption and adaptation, and better managerial organization.⁸ Therefore, larger firms are more eager for market opening and integration, while smaller firms are less enthusiastic.

In sum, global liberalization has highly differentiated effects on economic actors within countries. It leads to intensified demands for further liberalization on the parts of firms and individuals who own abundant factors, are in competitive sectors, or have high EOS or TFP. On the other

⁵Ibid., 37.

⁶Ibid., 40.

⁷Ibid., 38.

⁸Ibid., 33-34.



hand, global liberalization leads to pressure for protection, subsidies, or redistribution on the parts of scarce factors, less competitive sectors, or smaller firms. In other words, global liberalization at the system level leads to realignments of differentiated interests and preferences, and results in distinctive political behaviors.

However, these newly reformed interests and preferences of economic actors are not directly translated into specific policies or institutional changes; they are usually mobilized and organized by relevant socioeconomic institutions. Labor unions, managers' associations, sectoral lobbying groups, and others mediate in translating the interests and preferences into specific policies for or against liberalization.⁹ This is primarily what is occurring in the society arena (see figure 2 below).

Political Actors and Political Institutions

Although socioeconomic actors' interests and preferences are realigned as global liberalization proceeds, they do not lead directly to specific policies, as pure pluralists may argue. It is more often that a final policy outcome deviates far from what the rational pluralist model might lead us to expect, since political actors intervene in the policy process, and political institutions in turn constrain political actors' strategies.

Political actors refract socioeconomic interests in accordance with their political interests. The most important interest of political actors is to retain and extend their power. In other words, political actors act on *political rationality* to maximize their power under given conditions. Political rationality usually prevails over the *economic rationality* of socioeconomic actors to maximize wealth under given conditions. Even if a policy is detrimental to the national economy, but supportive of a particular power base, it is frequently implemented.¹⁰ For example, although the Bush ad-

⁹For more elaboration on the mediation of socioeconomic institutions, see Geoffrey Garrett and Peter Lange, "Internationalization, Institutions, and Political Change," in Keohane and Milner, *Internationalization and Domestic Politics*, 48-75.

¹⁰In another context, Barry Ames examines how political leaders utilize public budgets to construct coalitions that will ensure their survival in office. See his *Political Survival: Politicians and Public Policy in Latin America* (Berkeley: University of California Press, 1987), 7-33.

ministration attempted to cut off agricultural subsidies due to increasing governmental deficits (based on economic rationality), the U.S. Congress turned it down in fear of losing political support from the Midwest agricultural areas (based on political rationality). Although it was economically rational for South Korea to join the WTO, the majority of the National Assembly initially opposed or hesitated in approving the participation in the face of strong resistance from agricultural constituencies.

Furthermore, political rationality is bounded by political institutions. The primary ones that we have to consider are regime type, state organization, and electoral formula.¹¹

First, regime type influences the degree of sensitivity of political actors to socioeconomic interests and preferences. The more democratic a regime is, the more sensitive it will be to the demands and pressures from society; the more authoritarian the regime is, the less sensitive it will be. As democratic regimes are reshuffled by periodic elections, it is crucial for political actors to be sensitive to socioeconomic interests and preferences. In other words, as in figure 2, the polity arena (P) should be more responsive to the society arena (S). Thus, under a democratic regime, political rationality will be more dependent on political accountability (or political legitimacy). Neither can authoritarian regime be indifferent to societal demands and resistances indefinitely, but it faces less constraints from the society arena. Under an authoritarian regime, political rationality tends to depend on dynamics within the polity arena itself (P), as will be seen in China.

Second, state organization also influences the responsiveness of the polity to societal demands and resistances. The responsiveness of the outcome (O) to changes in socioeconomic interests and preferences (S) will be inversely correlated to the numbers of veto points in a political system.¹² Hence, as Geoffrey Garrett and Peter Lange point out, the policy outcome may be expected to be more responsive to changes in societal interests and

¹¹See note 9 above.

¹²George Tsebelis, "Decision Making in Political Systems," *British Journal of Political Science* 25, no. 3 (July 1995): 289-325; quoted in Garrett and Lange, "Internationalization, Institutions, and Political Change," 54.

preferences in a country such as Britain (which has a single veto player, the House of Commons) than in Germany, where both chambers (the Bundestag and Bundesrat) exercise legislative authority, or in the United States, where the president can veto congressional decisions. In authoritarian or party-state communist regimes, the military, the secret police, and other state apparatus can be independent enough to act as veto players.¹³ In general, the more veto players are in a political system, or the more decentralized it is, the less responsive the policy outcome will be to changes in societal interests and preferences.

On the other hand, the independence and autonomy of state bureaucracy influence government responsiveness to societal demands and pressures.¹⁴ Bureaucrats will have political interests different from elected politicians, and are more concerned about promotions and organizational interests and less about societal demands. Hence, the more independent and autonomous state bureaucrats are, the less responsive policy outcomes will be and the slower the pace of policy change will be.

Finally, the electoral formula constrains both socioeconomic actors' representation and political actors' rationality. Proportional representation combined with multi-member districts is likely to more precisely represent the constellation of socioeconomic interests and preferences than majoritarian representation combined with single-member districts. In the former electoral system, political actors may have to be more sensitive to societal demands than in the latter system. Furthermore, under geographic representation as in the U.S. Senate, or under the single nontransferable voting system as in Japan, rural interests tend to be overrepresented relative to their economic importance and population size. As a consequence, agriculture has been able to win significant trade protection.¹⁵

¹³Garrett and Lange, "Internationalization, Institutions, and Political Change," 66. Michael McFaul also finds this phenomenon in the Russian privatization reforms since 1992. See Michael McFaul, "State Power, Institutional Change, and the Politics of Privatization in Russia," *World Politics* 47, no. 2 (January 1995): 210-43.

¹⁴See especially Margaret Weir and Theda Skocpol, "State Structure and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain, and the United States," in *Bringing the State Back In*, ed. Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol (New York: Cambridge University Press, 1985), 107-63.

¹⁵Garrett and Lange, "Internationalization, Institutions, and Political Change," 53.

In a party-state system such as China, political leaders are selected within communist party politics rather than by elections. Thus, they are more likely to be sensitive to the balance of power within the party, and the success of a particular policy is directly linked to their power legitimization within the party.¹⁶

A Political-Institutional Model

What factors determine accommodation of global liberalization? How is global liberalization linked to domestic politics? To address this question, we have analyzed its effects on socioeconomic actors' interests and preferences (S), and their refraction through political actors' interests and political institutions (P), as shown in figure 2.

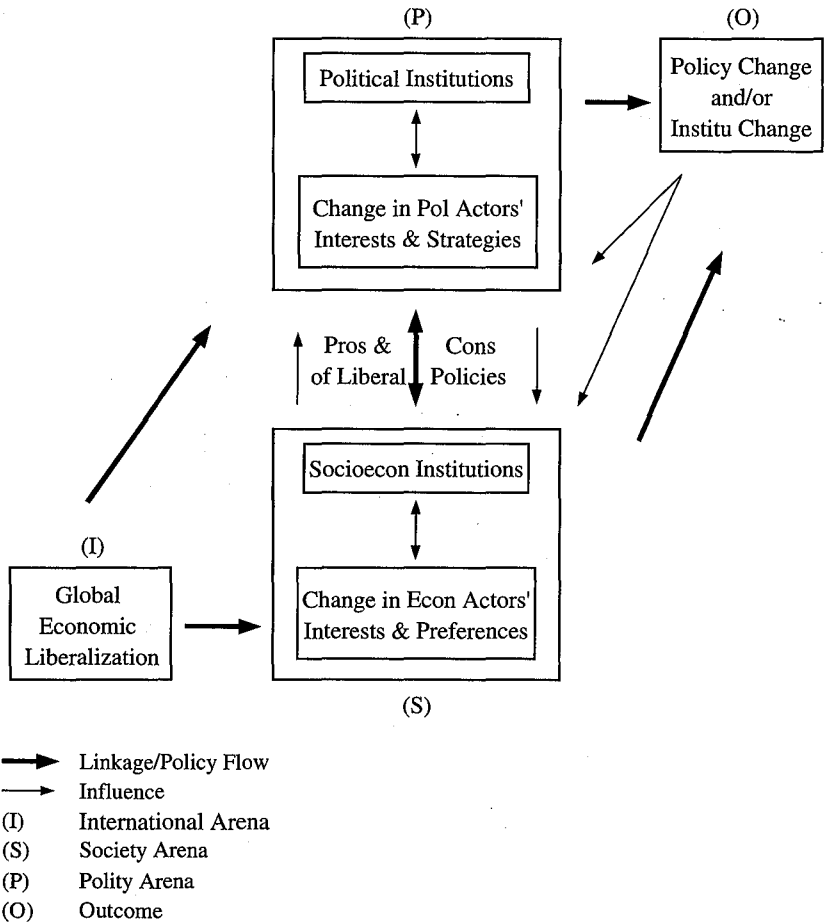
Global liberalization directly affects domestic economic actors' interests and preferences first of all, as economic actors try to realize their economic rationality with differentiated interests and preferences depending on their factors, sectors, or sizes. However, societal demands for or against liberal policies are severely refracted by political actors' interests based on political rationality, which in turn is constrained by political institutions. Finally, the outcomes, in forms of policy and institutional changes, in turn, affect relevant actors' interests and preexisting institutions at both the society and polity arenas. Thus, the ideal type of linkage flow as elaborated here is: (I) → (S) → (P) → (O).

The pluralist model, like the one of Frieden and Rogowski, tends to largely neglect the polity arena (P), as does also the Marxist view. It thus assumes a flow of (I) → (S) → (O).¹⁷ If economic rationality is congruent with political rationality, this flow of (I) → (S) → (O) may not have any significant difference from that of (I) → (S) → (P) → (O). But even in a

¹⁶See especially Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993), and her "Internationalization and China's Economic Reforms," in Keohane and Milner, *Internationalization and Domestic Politics*, 186-206.

¹⁷On the other hand, the dependency school tends to emphasize a flow of (I) → (O), largely neglecting the significance of domestic variations.

Figure 2
Globalization and Domestic Politics



most democratic and pluralist regime, it is difficult to expect such a perfect congruence between political and economic rationality. In conflicts with each other, political rationality usually prevails over economic rationality. Furthermore, as mentioned above, political actors' strategies to realize their political rationality are severely bounded by existing "rules of the game" within the polity.

If we move on to former or current socialist regimes as in China, the

importance of political rationality and political institutions becomes even more apparent. In a party-state socialist system, the society arena (S) is less developed. Frequently, political leaders directly respond to international trends (I). The outcomes, whether they are policy or institutional changes, are more likely to be determined by rules of the game within the polity (P), whether they be deliberation within the central committee, the party hierarchy, or naked power struggle. During deliberation within the polity, political leaders try to mobilize societal groups in support of their policy preferences. Or after particular policies are determined within the polity, they mobilize societal actors in publicizing and implementing the policies. Thus, the linkage flow in socialist regimes will usually be: $(I) \rightarrow (P) \rightarrow (O) \rightarrow (S)$.

To conclude, the more democratic a regime is, the more likely it is to follow the flow of $(I) \rightarrow (S) \rightarrow (P) \rightarrow (O)$, which may be called a democratic flow; the more authoritarian the regime is, the more likely it is to follow the flow of $(I) \rightarrow (P) \rightarrow (O) \rightarrow (S)$, an authoritarian flow. In either case, the political and institutional factors (P) are important. In the following section, the Chinese socialist market economy will be analyzed as a typical case of an authoritarian flow of the political-institutional model.

The Chinese Socialist Market Economy

Since the Third Plenum of the Chinese Communist Party's (CCP's) Eleventh Central Committee in December 1978, China has followed the path to a "socialist market economy."¹⁸ Deng Xiaoping and his coalition initiated and implemented a series of economic reform policies primarily aimed to induce foreign investment and expand foreign trade under the goal of national economic development. As Susan Shirk well summarizes, the core components of Deng's reform policies were:¹⁹

¹⁸Although the term "socialist market economy" was adopted officially at the CCP's Fourteenth Congress in October 1992, it is reasonable to regard the whole process of economic reform and opening since the Third Plenum of the CCP's Eleventh Central Committee in December 1978 as an evolutionary process of the socialist market economy.

¹⁹Shirk, "Internationalization and China's Economic Reforms," 195.

1. The expansion of exports, particularly of light industrial manufactured goods, by decentralizing foreign trade administration and allowing more incentives. The monopoly of the central foreign trade ministry was smashed and trading authority decentralized among various ministries and provinces, allowing them to retain a proportion of their foreign exchange earnings. Collective township and village enterprises (TVEs) were encouraged to export.
2. The acquisition of foreign technology, investment, and managerial and marketing know-how through joint ventures. To attract foreign investment, approval authority was decentralized to ministries and provincial officials.
3. The creation of the special economic zones (SEZs) in the coastal provinces of Guangdong and Fujian as well as others, where concessionary terms were offered to foreign investors.

These reform measures have been extraordinarily successful, stimulating the national economy to grow at an annual average of 10-12 percent. Economic success, in turn, has encouraged political support for the reform drive from key sectors and regions and helped sustain it for almost two decades despite serious setbacks.

Then, how can we understand the socialist market economy in the context of global liberalization? How does it fit into the political-institutional model? To answer the questions, we will draw out key features of the socialist market economy.

First, Deng's reform drive was not a direct and deliberate response to international trends, i.e., global liberalization. Nonetheless, its progress and successful outcome were directly interrelated with liberalization of the international economic order. The socialist market economy was initiated by Deng Xiaoping and his political coalition as a strategic political choice in the context of his succession competition with Hua Guofeng after Mao Zedong's death in 1976.²⁰ Domestically, after ten years of class struggles

²⁰Shirk especially emphasizes this aspect. See her *The Political Logic of Economic Reform in China*, 33-37.

and ideological conflicts during the Cultural Revolution, Deng's drive for economic development via reform and opening could gather wide support within and without the party and the state. Internationally, China had already reached the limit of autarky (point E in figure 1 above). Thus, under the condition of increasing global liberalization, with international transactions easier and potential gains increasing, Deng's drive for opening was economically rational. In other words, Deng's political strategy, based on political rationality, was also congruent with national economic rationality.

According to our analytical framework (see figure 2), Deng's reform drive was devised within the polity (P) at first; it then successfully mobilized pro-reform forces from various sectors and regions (S). So we can say the flow was: (I) \rightarrow (P) \rightarrow (O) \rightarrow (S), an authoritarian flow of the political-institutional model.

Second, just because the socialist market economy was initiated as a political strategy for Deng and his reform coalition to win the succession competition and retain the power, it has been premised on maintaining political stability and realizing their political rationality. Reform and opening have been confined, at least officially, within the "four basic principles." Economic reform relied more on marketization rather than on privatization.²¹ Although the macroeconomy has been increasingly left to market operation, state control, as an important policy measure, has been stressed consistently by top political leaders.²² Within this context, student movements for political liberalization in December 1986 and June 1989 were rigorously repressed, suspending the reform process for a while.

Third, the progress of the socialist market economy was not pre-planned; it has tended to proceed as a political strategy for Deng and his reform coalition to widen their political support and legitimacy. By maneuvering reform policy measures selectively, they have co-opted pro-reform forces from various sectors and regions. First, they co-opted coastal regions, light manufacturing industries, and agriculture, which would benefit

²¹Yu-Shan Wu, *Comparative Economic Transformations: Mainland China, Hungary, the Soviet Union, and Taiwan* (Stanford: Stanford University Press, 1994), 17-45.

²²For example, see Jiang Zemin's report to the CCP's Fourteenth Congress, October 12, 1992.

from opening due to their relative comparative advantages. By decentralizing economic rights to foreign trade, investment, and foreign exchanges to ministries and provincial officials, and by extending the SEZs selectively even into interior provinces, they have extended the pro-reform coalition. Of course, the use of the socialist market economy as political leverage was possible because of favorable international economic conditions, i.e., global liberalization.

Fourth, the gradualism of the socialist market economy is largely due to political consideration. Wing Thyee Woo, after comparing the Chinese gradualism with the "big bang" of Poland, concludes that the gradualism in China is not necessarily an effective approach. He points out that even in China, radically reformed sectors like trade and agriculture have been more successful than those like state-owned sectors.²³ But this is a too economically-skewed explanation. Chinese gradualist reform may not have attained optimal economic rationality, but it has attained optimal political rationality. As already discussed, the progress of the socialist market economy was determined by a political strategy to widen political support and legitimacy. After economic success in a limited region or area was attained, political leaders extended reform measures to other regions and sectors in an incremental manner, deliberately expanding their political support. Gradualism and unevenness of the reform process have been the results of deliberate political consideration.

Finally, we have discussed that, in general, the more authoritarian a regime is, the less responsive to changes in socioeconomic actors' interests and preferences it will be. However, as in China, when political leaders have to seek their policy legitimization within the polity arena first due to institutional characteristics of communist regimes, they more effectively mobilize and encourage societal interests and preferences. To win the political struggle within the party-state and widen their power base, Deng and reform leaders have co-opted regions, sectors, and factors into the liberal

²³Wing Thyee Woo, "The Art of Reforming Centrally-Planned Economies: Comparing China, Poland, and Russia" (Paper presented at the Conference on the Transition of Centrally-Planned Economies in Pacific Asia, the Asia Foundation, San Francisco, May 7-8, 1993).

economic reform drive by distributing economic rights and incentives selectively and differentially.

In short, the socialist market economy was not a direct response to global liberalization, but its progress has been closely interrelated with it. Furthermore, the interrelation between the socialist market economy and global liberalization has been consistently controlled by reform leaders on the basis of their political rationality. Thus, we may conclude that the socialist market economy is a typical case of an authoritarian path of the political-institutional model.

Conclusion

To restate the question with which we have begun, given global liberalization at the system level, what factors determine accommodation at the state level? Or how is global liberalization linked to domestic politics of accommodation? The pluralist model tends to directly link changes in socioeconomic actors' interests to particular policy outcomes: thus, $(I) \rightarrow (S) \rightarrow (O)$ in figure 2. But we have stressed the significance of political actors' political interests and political institutions. Changes in the society arena are influenced by dynamics within the polity arena. Thus, a typical linkage flow of the political-institutional model will be that of $(I) \rightarrow (S) \rightarrow (P) \rightarrow (O)$, which we called a democratic flow. An extreme case of the political-institutional model, however, will be the flow of $(I) \rightarrow (P) \rightarrow (O) \rightarrow (S)$, where political actors reach a policy outcome reflecting global changes, mobilize and encourage societal interests and preferences, and legitimize their policies and consolidate their power within the party-state. This is particularly true of the Chinese socialist market economy.

The political-institutional model stresses political actors' interests based on the consideration of political rationality that is to maximize power under given condition. It also stresses political institutions by which political actors' strategies based on political rationality are bounded. When political actors' rationality conflicts with economic actors' rationality, the former usually prevails over the latter. In an authoritarian regime such as China, political rationality is far freer from economic rationality. In a com-

munist regime as in China, it is more constrained by political dynamics within the party-state.

Thus we may conclude that global liberalization at the system level will lead to particular policy outcomes at the state level, but via differentiated linkage flow: the more democratic a regime is, the more likely it is to follow the flow of $(I) \rightarrow (S) \rightarrow (P) \rightarrow (O)$; the more authoritarian the regime is, the more likely it is to follow the flow of $(I) \rightarrow (P) \rightarrow (O) \rightarrow (S)$. In either case, however, political and institutional factors refract the direction of the flow.

