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Book Review Roundtable

Internationalizing China: Domestic Interests and Global Linkages

By David Zweig

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China in the "Easy Phase" of Opening

CATHERINE BOONE

David Zweig's *Internationalizing China: Domestic Interests and Global Linkages* focuses on China's "initial phase" of opening to the world economy, lasting from about 1988 to 2000. Zweig argues that in this phase of China's reform, internationalization was swift and far-reaching because it created win-win situations in which central elites, local officials, and countless individual actors all shared in the huge gains to be had by establishing and expanding linkages to the outside world. Opening created a wide circle of beneficiaries—including institutions, organizations, cities and rural communities, state agents at virtually all levels, foreign investors (especially network capitalists), scientists, students, and others. Competition among localities, corporate groups, and individuals to capture the gains of exchange with the world drove forward the process of opening, thus eroding the boundaries and barriers that had limited China's international linkages in the earlier period.

Zweig's study is wide-reaching in both its empirical content and its engagement with the political science and international political economy literature on the worldwide economic liberalizations of the 1980s and 1990s. The analysis covers four sectors or policy arenas: (1) what Zweig calls segmented deregulation or "urban internationalization," (2) internationalization of the rural areas with a focus on the rise of rural industry, (3) opening of higher education to international exchanges, and (4) the opening to overseas development assistance (ODA). Working deductively with the international political economy (IPE) literature, Zweig asks three interrelated questions of the reform process in each policy area. First, was

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the initial opening in each policy area driven by social demands for liberalization, as liberal IPE models predict, or was it a unilateral decision of central state leaders? Second, what is the role of institutional constraints and incentives in explaining how internationalization occurred? What channels of linkage were established, and did the nature of these connections undermine or enhance central control? Third, do market forces (understood broadly as gains to be had by exploiting the difference between the value/cost on the Chinese market and international prices) explain who responded most enthusiastically to opportunities to establish international linkages?

Zweig's answers, broadly put, are that top state elites initiated China's opening. Once central barriers where lowered, however, local beneficiaries captured (and expanded) new channels of linkage so enthusiastically and vigorously that central control over the opening process was gradually undermined. The key to explaining this response is the fact that opening proceeded in ways that not only generated profits for those who could exploit their own comparative advantage, but also offered rents to the state agents—mostly at subnational levels—who facilitated external transactions. The arguments challenge what Zweig sees as IPE's overemphasis on external as opposed to internal forces, as well as unidimensional political or economic explanations. In the author's words, the book's main story is "how the domestic hunger in China for global linkages, generated in part by foreign market forces and the state's own regulations, brought down institutional impediments to transnational relations and weakened the state's control over its citizens, resources, and sovereignty far more rapidly and completely than the elites and bureaucrats had anticipated" (pp. 268-69).

This is a well-crafted and wide-ranging analysis. It draws together the author's own extensive knowledge and experience in China, findings from his own interviews and surveys in China, and a wealth of data drawn from press reports, Chinese policy documents, and the large secondary literature on China's opening. Data presented in about 65 tables, figures, and maps help ensure that *Internationalizing China* will stand as a milestone study of China's reforms through the late 1990s.

Three insights, or themes, strike this reader as particularly distinctive or as significant contributions to understanding economic liberalizations in general, and to the study of China's particular trajectory.

The first is the author's insistence on local officials and state agents as a motor force driving the opening process. Once the initial regulatory barriers were lowered, Zweig argues that societal and local governmental responses to new opportunities were massively positive, decentralized, and greatly in excess of the official "supply" of linkage channels. Swarms, stampedes, herd behavior, and a feverish rush to establish external linkages created tremendous grass-roots momentum that helped to push open China's doors. Even bureaucrats who might otherwise have been predisposed to resist reform were swept up in the competitive frenzy to cash in on the new possibilities—not only to enrich or empower themselves but also to capture rents and profits that would strengthen the agencies, organizations, local governments, and collectivities that they represented. Under these conditions, local officials pushed the limits of—and sometimes even subverted—central policies aimed at maintaining top-down, mercantilist control over the opening. The fact that central regulations were often weak, and that property rights were not well specified, created wide room for such strategies. Zweig also argues that local officials actively lobbied higher-ups for more decentralization of regulation, and in that way contributed to the *de jure* as well as *de facto* erosion of central controls.

The key to explaining this bottom-up pressure for reform is that entrepreneurial units and individuals retained the benefits of innovation and growth. While this point is probably taken for granted in the context of China studies, for many comparativists it raises questions about why the central government's willingness, or capacity, to prey on China's most successful provinces and localities has been so limited. Why, in a nominally centralized system of government, is the central state *not* more predatory? Under the fiscal responsibility system, for example, local government kept the lion's share of the foreign exchange it earned through township and village enterprise (TVE) exports. Such arrangements reflect the decentralizations of the reform era, underscoring the connection between China's opening, on the one hand, and the larger story of change and continuity in center-local relations, on the other. Spatial distributions of political and

economic power—including the rules defining the material bases of local government—are key to explaining the incentive structures and power balances that have driven reform in China.

Second, Zweig emphasizes the fact that China's opening often did not transfer power from the state (or state agents) to the market. Contrary to what the liberal models of economic opening describe, in China the lowering of barriers to outside exchanges empowered bureaucracy, rather than dismantling it or allowing societal actors to by-pass it. Central, provincial, and local governments created new bureaucracies to regulate exchange. Officials at various levels gained from their positions as gatekeepers, rent-creators, rent-takers, interlocateurs, and allocators of favors. Provincial and city-level actors and agencies reaped a net gain in autonomy and power vis-à-vis the center, but Zweig emphasizes the fact that this process was both spatially and temporarily uneven. A main point of his chapter on "segmented deregulation and urban internationalization" is that central elites continued to decide *which localities* would be offered the greatest room for mobility, profit-making, and autonomous action. Zweig thus concludes that over the course of the 1980s and 1990s, China's opening not only expanded the play of market forces but also empowered local government and strengthened the Communist Party (p. 109).

Liberalization in China, then, shares this feature with liberalization in many other parts of the world. It has not necessarily expanded the sphere of free exchange while diminishing the role of power and coercion in social life. Formal "deregulations" have often empowered government at subnational levels, or have even strengthened local and regional powerbrokers who operate without much reference to formal, constitutional rules.[1] More than market failure per se, this reflects the absence (or incomplete presence) of the fundamental social and institutional conditions for the operation of market forces—including the full commodification of land, labor,

[1]See, for example, Richard Snyder, *After Neoliberalism: Reregulation in Mexico* (Cambridge: Cambridge University Press, 2001); and Catherine Boone, *Political Topographies of the African State: Rural Authority and Institutional Choice* (Cambridge: Cambridge University Press, 2003).

and capital. What results is the invention of new politico-economic forms that are highly diverse, perhaps even locally-specific, and that do not much resemble "capitalism" as we have come to define it. The evolutionary dynamics of these social forms are anyone's guess: this analytic challenge will keep Zweig and his fellow political economists busy for the next generation, at least.

Third, Zweig sees the late 1980s and 1990s as the easy phase of China's opening, when reform created an ever-widening circle of beneficiaries and few losers. Zweig has two things to say about the next phase of internationalization, which began with China's entry into the World Trade Organization (WTO). One has to do with interests, and the other with institutions. With respect to interests, Zweig argues that now, for the first time, powerful domestic interests really are threatened by internationalization, and that there will be mounting resistance to further opening. Here, he includes the core state-owned enterprise (SOE) sector and agricultural interests. Meanwhile, some groups that profited during the "easy phase" of opening—such as the bureaucrats and other state agents who allocated the favors and collected the rents created by segmented or selective deregulation—may find their positions threatened by moves toward WTO-conforming rules, and may thus join the ranks of those resisting further deregulation and internationalization. This means that the very forces that Zweig identifies as driving China's rapid opening in the initial phase of reform—the feverish rush of societal actors to establish linkages, facilitated and encouraged by state officials and agents themselves—may now be exhausted. When it comes to institutions, Zweig argues that a WTO-conforming phase of reform will be complicated, and perhaps distorted or limited, in important ways by the institutional legacies of the 1980s and 1990s. The initial opening was structured and promoted by decentralization (devolution of administrative and fiscal prerogatives to lower-level government), by weaknesses and ambiguities in central rules and in the center's capacity to enforce rules, by the fact that property rights in rural land and in state assets were not clearly specified, and by local officials' extra-legal (sometimes corrupt) dealings with foreign investors, other state agents, and their own subjects.

The capacity of the center to administer, monitor, and enforce national policy in the provinces and localities—and presumably to overcome local resistance to central directive—remains limited, and arguably even diminished over the course of the 1990s. Local despotisms, fiefdoms of personal rule, maverick localities, and entrenched interests at the local level compete against each other, and sometimes against central actors, via means both fair and foul. Some of these problems were laid bare during the SARS (severe acute respiratory syndrome) crisis in the spring of 2003, when center-provincial tensions, apparent breakdowns in official chains of command, and perverse incentives that encourage local officials to cover up local problems were on full display. These local autonomies hampered China's ability to mount an early and effective response to the health crisis, and also limited Beijing's ability to collaborate effectively with international organizations and actors, including the World Health Organization. Zweig may be correct in suggesting that the very sources of China's remarkably successful opening in the 1980s and 1990s may become liabilities for a national government now facing extraordinarily complex challenges from both within and without.

China's Paths to Internationalization: Puzzles and Comparative Implications —Reflections on David Zweig's *Internationalizing China*

RICHARD P. SUTTMEIER

David Zweig has written an interesting, informative, and challenging book about China's interactions with the rest of the world in the decades since the initiation of the open-door policy. The study is built around a series of questions and propositions drawn from the comparative literature on internationalization, which are then explored in the context of four in-depth case studies focusing on urban and then rural China, the internationalization of the educational system and the study abroad phenomenon, and China's experience with overseas development assistance.

Zweig's story is one in which the internationalization of the late 1970s is initiated in the belief that international interactions could be carefully controlled and regulated by the state. Once the process begins, however, a new dynamic is unleashed. Efforts to maintain regulatory control continue, but as domestic actors begin to become informed about—and appreciate—the resources available in the international environment and acquire a sense of interest in internationalization, pressure builds for further opening.

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Foreign partners at the other end of the transnational linkages—corporations, educational institutions, international organizations and development agencies, NGOs, as well as foreign governments—also put pressure on the regulatory structure, and in so doing increase the value of receiving official favor and regulatory approval. For the bureaucrats charged with regulatory responsibilities, the domestic "fever" for internationalization—and foreign enthusiasm for China linkages—provide attractive new opportunities for the exercise of regulatory discretion, a condition favorable for the development of widespread rent-seeking. Given that China's internationalization coincided with the devolution of authority to local governments, we find that actors throughout the system—in both urban and rural areas—acquire interests in moving the internationalization process forward. This is not to say that there were not conservative voices opposing the opening and, of course, many parts of the Chinese interior remain insulated from the dynamics of change.

A central concern of the author is the widespread corruption which has resulted from this process, or more accurately, how the corruption has both contributed to internationalization (China, after all, has become remarkably internationalized place in many ways over a relatively short period) but also to the persistence of a system which is notably ambivalent about its commitment to liberal market principles and understandings of international interdependence. An exploration of these issues occupies a good part of Zweig's concluding chapter and a number of suggestive observations emerge from this discussion. The first has to do with the difficulties China has had in devising a regulatory structure for controlling transnational interactions which is founded on principles of legal impersonality and procedural transparency. Although the book does not go deeply into China's WTO accession, Zweig subscribes to the view that Jiang Zemin (江澤民) and Zhu Rongji (朱鎔基) pushed accession in large part to accelerate change toward a more law-based and transparent regime. But, second, during the course of the 1990s leading up to accession, many in China began to have second thoughts about internationalization. This was motivated in part by concerns over the obligations WTO membership would impose on China, and how these would change the cost-benefit assessments of transnational linkages. It was also motivated by the new nationalism of the 1990s and concerns that, for all its benefits, internationalization also was increasing China's dependence on assets from the international environment and, hence, in a fundamental sense, its vulnerabilities.

Zweig's efforts to conceptualize the study in ways which would place the China case in a comparative framework are largely successful. He identifies a series of variables which were important for explaining the Chinese case, reviews how these variables are treated in the comparative literature, and convincingly assesses their relevance for China's internationalization. Yet, the patterns seen in the Chinese case may not be repeated elsewhere. Indeed, one comes away from reading the book with a sense of the many contingencies which nations face as they internationalize. Coming to a better sense of these contingencies should give us pause in evaluating the many generalizations about the effects of globalization that daily fly by us in both specialized academic fora and the popular media. What Zweig has now given us are some additional tools for thinking systematically about the internationalization options faced by countries as they confront globalization.

As the final chapter indicates, and as daily news reports from countries around the world remind us, one of the central puzzles about internationalization is the "deeper integration" issue—i.e., how far a society wishes to go with its integration with international society and the terms under which integration proceeds. China will continue to be an especially important case to monitor in this regard. The nationalism which Zweig identifies is not likely to disappear anytime soon given the many security, economic, and environmental uncertainties wrought by globalization. At the same time, Zweig believes that two decades of internationalization experience has led China to embrace international norms in ways that would have been inconceivable when the process started. Hence, China's commitment to WTO should give us hope that this process will continue. In many ways, therefore, some of the more interesting questions about Chinese internationalization are still before us. Zweig has given us some useful intellectual tools for examining these questions.

Seeing the Big Picture

Hongying Wang

In this ambitious and well-researched study, David Zweig explores how China has internationalized itself over the last quarter of a century. He defines internationalization as "the expanded flows of goods, services, and people across state boundaries, thereby increasing the share of transnational exchanges relative to domestic ones, along with a decline in the level of regulation affecting those flows" (p. 3). While addressing a myriad of specific research questions, his central puzzle is this: "Why did a communist country, and a leadership so long committed to Maoist autarky, increase the level of global transactions and reduce the level of regulatory controls?" (p. 3).

Through case studies of internationalization in four diverse areas—urban economy, rural economy, education, and foreign aid—Zweig presents us with a convincing big picture of how China opened its door to the outside world. He argues that the interaction of a host of international and domestic factors has brought about China's internationalization. He demonstrates that typically the internationalization of a sector begins with the central government deciding to allow limited transnational exchanges to take place under government control. Once these exchanges develop, international and domestic beneficiaries or potential beneficiaries push for further opening through decentralization and/or deregulation. Despite government efforts to regain control from time to time, the process of greater liberalization has been irreversible.

While this book contains many important insights, I find the treatment of the following questions especially enlightening. First, why did

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China's leaders decide to allow the country to be internationalized? Disagreeing with Susan Shirk's influential argument that the center granted coastal regions preferential policies—including lower international barriers—as a tactic to gain political support from local governments, Zweig points to elite visions and elite learning.[1] I only wish the book provided more detailed discussion on this subject. Second, how did the leaders manage to overcome the natural tendency for bureaucrats to resist liberalization? Zweig shows that this has been accomplished by granting bureaucrats control over the "channels of global transaction"—joint ventures, special economic zones, foreign affairs offices, counterpart agencies, etc. Such an arrangement provides bureaucrats with rent-seeking opportunities (or in Zweig's words "no flow, no dough," p. 42) and thus turns them into advocates of increased transnational exchanges. Third, how do domestic and foreign supporters of internationalization push for their policy preferences? Zweig relates some fascinating stories showing that while China's political environment does not permit collective action, local governments, institutions, and individuals separately seeking greater global linkages nonetheless amount to considerable pressure on the government to expand transnational channels. His account of how foreign organizations seek to influence China in the field of foreign aid is especially rich and interesting.

The overall impression one gets from reading this book is that during the first two decades of the reform era no powerful group in China was against the expansion of transnational exchanges. Even those who did not benefit from the open policy were not opposed to it, but rather only demanded the policy to be more inclusive. Toward the end of the book, however, Zweig admits that "As internationalization deepened, a strong antiglobalization movement emerged in China. Much of [the movement] targeted the enormous level of deregulation and the further anticipated deregulation that will ensue due to WTO accession" (p. 270). What explains this new trend? How does deeper integration change the forces responsible, until recently, for China's internationalization—i.e., elite visions, bureaucratic incentives, and the interests and capacities of domestic and foreign groups? He briefly mentions several factors—nationalism, threat of transparency to bureaucratic power, harmful impact of liberalization on inefficient sectors, etc.—but does not explore them with nearly the same kind of rigor and empirical evidence as he does with his major research questions. A more careful examination of the recent anti-internationalization trend would have enhanced and perhaps refined his explanation of China's internationalization. In any event, this book certainly provides a very useful point of departure for future studies of the anti-internationalization movement in China.

[1]Susan Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993).

One can question some specific conclusions. For example, Zweig argues that it was easy for the Chinese government to keep control over global exchanges when domestic actors did not know their interests—e.g., were not aware of the price differences between inside and outside China and thus did not identify the opportunities to profit from such differences. This view suggests that if only people had been better informed, they would have exerted pressure on the government to open China to the outside world and thus the government would have had a hard time keeping China closed. I find this claim questionable. As another example, looking ahead into the future Zweig states that "self-interested citizens and far-sighted leaders can pressure those with vested interests in preserving a semi-regulated trade and investment regime to give up most controls" (p. 277). This statement seems to imply a popular view of China that pits the "good" citizens and visionary leaders against the "bad" bureaucrats. Is this an accurate depiction of the cleavages in Chinese society regarding internationalization? Are there not many citizens with vested interests in protection and many bureaucrats who champion liberalization? Overall, however, this is a rich and sophisticated study that greatly enriches our understanding of how China has become internationalized.

Finally, this book should also be commended for its effort to link the study of China with general theories of international relations and political economy. Zweig goes out of his way to reach beyond the China field, although in his enthusiasm to incorporate a large number of concepts and conclusions derived from studies of other parts of the world, he does not always have time or space to discuss if or how they are relevant to the Chinese context. This book should be of interest not only to students of China, but also to scholars interested in general questions regarding the politics of liberalization.

A Feedback Loop Toward Globalization

Ding Lu

As remarked by the author, China's internationalization during the 1980s to 1990s was a key event in the late twentieth century, second only to the end of the Cold War/collapse of the Soviet empire (p. 6). David Zweig's book, which aims to provide a holistic explanation of China's turn outward, is therefore a timely scholarly work that contributes to our understanding of contemporary China as we ponder the prospect of China's continued globalization in the first decade of the twenty-first century.

A major feature of this book is its perception of China's internationalization as an intensifying process, one with a feedback loop based on the distributional consequences of internationalization among foreign political and business interests, the ruling elites in the central government, the bureaucratic agents, and local communities, organizations, and individuals.

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This characterization differs from earlier explanations that stress only one or two aspects of these international or domestic factors.[1] Backed by his observations of China's opening up of urban areas, rural industries, tertiary education, and the foreign aid management regime, the author convincingly describes the beneficiaries of freer transnational links as the main pushers and drivers in this internationalization process.

China's move away from tightly controlled autarky after 1978 was initiated at first by top elites, who intended to take advantage of globalization while maintaining tight regulatory control in order to protect national interests or ideological paradigms. The huge gap between the domestic and international prices of many goods and services implied potentially lucrative opportunities both to domestic actors who could bring in foreign resources and to foreign interests who could gain access to the domestic market. These opportunities soon generated enormous rents for bureaucratic agents in charge of "channels of global transaction" since the beneficiaries of opening "had to work through, work around, or pay off these gatekeepers" (p. 47). Arising from political convenience and prudence, the top elites favored a segmented deregulation process rather than a sudden tearing down of all bureaucratic constraints on transnational links. The result has been an uneven distribution of benefits across regions and sectors, a situation driving local governments and organizations in highly regulated regions and sectors to demand that the central government further dismantle regulatory constraints. The collective actions of domestic and foreign beneficiaries thus have constituted a feedback loop which has intensified the process of internationalization.

The author's analysis of internationalization in urban areas, rural in-

[1]As reviewed by the author (pp. 7-18), there are four models relevant to understanding China's internalization process: (1) explanations focusing on the power of regulatory regimes to limit or skew the pattern of global interaction; (2) neoliberal explanations stressing the role of global market forces that work with domestic coalitions of trade beneficiaries; (3) state-led development explanations characterizing bureaucrats as successful promoters of the economy's comparative advantages in the internationalization process; and (4) a network capital model stressing horizontal linkages by small ethnic Chinese firms that conduct transnational exchanges with a modicum of government interference.

dustries, tertiary education, and the foreign aid regime effectively supports his hypotheses regarding the nature of the process. At the same time, these accounts also reveal an issue that Zweig did not discuss in depth: the trade-off in bureaucratic interests between retaining controls on transnational links and the further opening of such links. The segmented deregulation and uneven access to global linkages are the source of bureaucratic rents—rents which arise from the regulatory gaps between those constrained by and those relatively free from administrative controls. Therefore, apart from incentives for local leaders to seek preferential policies for greater local freedom of access to international resources, there must also have been incentives among bureaucrats to seek and maintain control. As cited by the author, rents created by various state-controlled transactions between 1981 and 1989 accounted for 20-25 percent of GNP and the quotas needed for marketing textiles internationally during this period were worth on average 20-25 percent of the selling price of a good. Earners of these rents—such as bureaucrats and government-related traders—would have fought both to maintain the existing rent system and to establish a new rent system that would expand the scope of rents (p. 33). Because the feedback loop of the internationalization process intensified, the relative payoffs of further deregulation must have changed significantly over time in favor of further internationalization.

One possible hypothesis that would explain the change regards the relative interests of various segments of the bureaucracy. This was alluded by the author in his discussion of the demands voiced by the units and localities in the regions and sectors that remained under tight control (p. 34, pp. 60-64). In the early stage of partial internationalization, the "preferential policies" for international links were granted as privileges to certain regions or sectors. In these regions and sectors, the local bureaucrats were gatekeepers who controlled access to the channels of global transaction under their charge and thus enjoyed huge rents. Envying such rents, bureaucrats in less opened regions and sectors exerted pressure on the central government for similar privileges. The paradox is that once access is granted to all, "preferential" treatment and the resulting rents will fully dissipate. This process, although sounding like a "prisoners' dilemma" for

bureaucrats, implies a relatively bright future for China in terms of overall social welfare.

Another possible hypothesis relates to the "soft-authority constraint" (or unclear rules and authority of local administration), a term the author cited from Lu and Tang.[2] Under China's authoritarian regime, delegating greater discretionary power to local governments for global transaction not only arose from political convenience in the early stage of internationalization but also created opportunities for local bureaucrats to generate and seek rents in a segmented regulation process. Given the unclear boundaries of their discretionary authority, local bureaucrats have been able to take advantage of the situation and accrue huge rents by controlling the local channels of globalization. These opportunities also provide incentives for local governments and organizations to press for more decentralized channels of global transaction. Such rent-seeking demands for local access to international linkages, however, could be a base for a mercantilist regime which leads to the "institutionalization of corruption," as suggested by the author (p. 275). The process predicts a much more pessimistic future.

At the end of the book, the author envisions two possible "equilibrium" prospects of an internationalized China: one is a mercantilist/developmentalist regime with a powerful market-limiting administrative-regulatory structure featured by personal ties and crony capitalist network. The other is a liberal-market/interdependent regime featured by market-facilitating impersonal rules and norms as well as an efficient government (pp. 273-76). Through proposing a set of hypothetical explanations and testing these hypotheses with rich data and facts, the author has established a theory to understand why China was able to open itself up and deepen its interdependence with the rest of the world by overcoming domestic resistance to globalization over the past two decades. This theory also provides clues for further research into trends in China's further globalization in the twenty-first century.

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[2]Ding Lu and Zhimin Tang, *State Intervention and Business in China: The Role of Preferential Policies* (Cheltenham, UK: Edward Elgar, 1997), 267.

Playing the Devil's Advocate: Finding the Shortcomings in *Internationalizing China*

SHU KENG

For most students of Chinese political economy, the "China miracle" would be unimaginable without the joining together of reform policies (改革, *gaige*) and efforts to open up China (開放, *kaifang*). Despite being so significant, China's opening to the outside world—i.e., internationalization—has not yet been carefully studied. In that regard, Zweig offers a *tour de force* on the causes, processes, as well as consequences of China's transition from an autarkic to an open economy. Zweig's work is thus essential reading on the story of China's successes in economic transformation over the past two decades. Even so, my review of this book will leave the compliments—no matter how fitting and well-deserved—for other reviewers. In order to add a bit of spice to this round-table, I will limit my discussion only to what I see as the limitations of the book.

Internationalization or Marketization?

After reading *Internationalizing China*, my first feeling was that the book is magnificent but perhaps has come out too late. In comparison to related research by Susan Shirk, Yasheng Huang, Dali Yang, Victor Nee,

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Jean C. Oi, and especially Zweig himself, this book strikes me as a study rich in case experiences rather than theoretical advances.[1] This leads me to believe that the book will be widely read and acknowledged but rarely debated, given that similar points have been presented elsewhere, though in somewhat different fashion.

This limitation, I believe, at least partially stems from Zweig's definition of internationalization: "the expanded flows of goods, services, and people across state boundaries ... along with a decline in the level of regulation affecting those flows" (p. 3). Such a definition may make it difficult for readers to distinguish the causes, processes, and consequences of *internationalization* from those of a much larger process, namely, *marketization*; after all, both involve expanding factor flows and lowering state regulations. Consequently, readers may not be able to tell whether it is internationalization or marketization that is making the difference. In fact, Zweig could have placed more emphases (esp. in chapters 2 and 3 of the book) on the aspects associated solely with factor flows beyond—instead of within—the boundary of the state. If Zweig had adopted such a strategy, the findings presented in the book would likely have been very different from those grounded in the study of the course of China's marketization.

[1]Susan L. Shirk, "Internationalization and China's Economic Reforms," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (Cambridge and New York: Cambridge University Press, 1996), 186-206; Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley, Calif.: University of California Press, 1993); Yasheng Huang, *Inflation and Investment Controls in China: The Political Economy of Central-Local Relations During the Reform Era* (Cambridge and New York: Cambridge University Press, 1996); Dali L. Yang, *Beyond Beijing: Liberalization and the Regions in China* (London and New York: Routledge, 1997); Victor Nee, "Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China," *Administrative Science Quarterly* 37, no. 1 (March 1992): 1-27; Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley, Calif.: University of California Press, 1999); and David Zweig, *Freeing China's Farmers: Rural Restructuring in the Reform Era* (Armonk, N.Y.: M.E. Sharpe, 1997).

Interest-Driven or Idea-Based Explanation?

In addition, Zweig's explanations in the book are largely interest-based; he highlights how, once barriers were brought down by top elites, local leaders captured and then expanded channels for transnational exchanges in order to reap commercial profits, even if they had to cross over the boundaries drawn earlier by the central state. Furthermore, he also points out the danger of "incomplete reforms": local leaders generally prefer partial deregulation over deeper globalization. Even so, Zweig still expects that "enormous benefits may come to China from its entry into the WTO, especially if the external pressures brought by membership force the state to impose the rule of law on its own transnational system" (p. 276). Therefore, during critical conjunctions toward internationalization, it is always China's top elites that take the initiative: first against socialist bureaucrats, and then against local beneficiaries. As Zweig himself concludes, "without central initiatives, the opening could not have begun" (p. 17). In this analysis, however, the interests of China's *top elites* are not carefully weighed and specified. Zweig gives us only assertions such as, "[m]ost senior leaders generally favored engaging the outside world" (p. 27).

Zweig does not stress the interests of top elites, to be sure, but a closer look at their concerns brings up another potential limitation of the book. According to my interviews with more than a dozen retired officials who used to work in different branches of the State Council, their decisions to push forward the reform agenda in the 1980s were primarily driven by their beliefs in what would be good for the country.[2] In addition, I could sense that their devotion and commitment were motivated by an internal impulse to make their country richer (富, *fu*) as well as stronger (強, *qiang*). However, policy ideas and nationalist thrust are largely missing in this book. This is because Zweig basically presents an interest- or incentive-based explanation, which rests on the choices of self-interested individuals. In fact, Zweig is only one of many scholars favoring such an approach. According to Shih Chih-yu (石之瑜), these interest-based explanations have effectively dominated mainstream Western studies of China.[3] Shih thus calls for reconsideration of this intellectual hegemony in the China field.

[2]Whether or not these ideas were correct is another issue.

Internationalization of Costal China or the Entire Country?

In appearance, Zweig's book is about the internationalization of China. A second look, however, indicates that the work is more, if not only, about coastal China. Note that chapter 2 of the book focuses on "urban internationalization." Chapter 3, though titled "Internationalizing Rural China," deals with rural areas located only in coastal China, especially those having undergone rapid urbanization in the past two decades—such as Jiangsu's (江蘇) Zhangjianggang (張家港) and Nantong (南通). Chapters 4 and 5, moreover, are concerned with the distribution of not only chances for overseas studies but also the funds from foreign developmental aid. Again, these opportunities are virtually monopolized by university graduates and non-governmental organizations, key groups in China's major cities. Accordingly, the book tells us very little about non-coastal China.

Understandably, China's rural hinterlands are still beyond the reach of internationalization. Partly due to China's preferential policies in the 1980s, access to transnational exchanges is unevenly distributed in China. In this sense, the process of internationalization cuts the country into two separate worlds: one of a coast being pulled into the global economy and one of an inland becoming increasingly insular. Contrasting the two worlds would have told us not just about the extension of internationalization but also its limitation in this huge country.

[3]Shih Chih-yu, "Dangdai xinzhiduzhuyi de Zhongguo mangdian" (The blind spot of neo-institutional analyses of contemporary China)," in *Shuping Zhongguo* (A collection of reviews of China studies) (Taipei: Hanlu Books, 1998), 33-71.

Transition or Consolidation?

Finally, in terms of the popular typology distinguishing between "transition" (centering on liberalization) and "consolidation" (involving institutionalization), I would argue that Zweig's book is more about the former and less about the latter. He places emphasis on tearing down institutional barriers rather than building up the institutional infrastructure which facilitates transnational flows of goods, services, and people. Recent studies tell us that these market-preserving institutions do not appear automatically once outdated institutions are abolished. A series of costly efforts must be undertaken in order to make new institutions work. For Zweig, accession to the WTO may probably be China's turning point in the path toward a free and open market economy (Quadrant D of Figure C.1 on p. 265). If so, then, the book only grasps half of the story of China's internationalization.

Conclusion

Zweig's book will likely carry different significance for various readers. For China scholars, this work perhaps comes out too late. If familiar with the extant research by Zweig and other scholars, one will not find much that is entirely original in this book, even though the case studies presented in the book may considerably enrich our understanding of contemporary China. For comparativists, on the other hand, Zweig's penetrating and comprehensive treatment of China's transformation over the past two decades is still one of the few choices for students of comparative politics, comparative political economy, and development studies; for this Zweig certainly deserves much credit.

Author's Response: Leaders, Markets, and Rents—Three Aspects of China's Internationalization

David Zweig

I worked on this book for a long time—the ideas began generating in my head in 1987 when I realized two things. The first insight was that while rural reform propelled China's overall development from the late 1970s into the mid-1980s, the key story thereafter was China's engagement with the world economy. The second realization was that internationalization had significant repercussions for China's domestic political economy, as those who quickly accessed global resources improved their comparative advantage within the domestic and international markets. These two points help explain the strong interest both within society and among local government officials in internationalization.

I would like to thank the reviewers both for their compliments and their criticism. It is better to be criticized than ignored, and my job now is to respond to the criticism in a way that forces me to look anew at my own work.

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Defining Elite Values: Self-Interest or National Interest?

Catherine Boone, looking from a comparative perspective, asks an excellent question: given the enormity of the "rents" available in the system due to internationalization, why was the central government not more predatory? In the aid sector, central administrators drew personal or financial benefits from directing aid projects. One interviewee in Shandong Province (山東省) reported that his city spent *RMB* 50,000 in order to secure a loan from a foreign government. This involved payments to various central and provincial bureaus, as well as gifts for officials in the Ministry of Foreign Trade and Economic Cooperation (MOFTEC, 對外貿易經濟合作部), which was responsible for distributing foreign aid. One cynical Canadian aid official I interviewed believes MOFTEC auctioned off Canadian aid projects to the highest bidder. Central officials also received trips overseas and educational opportunities for their children. Moreover, those who could get a "foreign" project were rewarded with a larger bureaucratic establishment (i.e., more positions under their control) and higher status for their bureau, which in turn brought larger payrolls, cars, credit cards, and power.

Perhaps my limited discovery of corruption at the center reflects both my predilection for grass-roots influences and the sectors that I studied. There really was not much wealth to steal in the education sector. Perhaps, had I studied the internationalization of the financial sector or the banks, I would have found much more corruption. Some of China's top bankers in New York and Hong Kong have been arrested for embezzlement, while most of China's 256 local international trade and investment companies (ITICs) were forced to close due to questionable business practices. Nevertheless, I did discover corrupt practices at the local level. A resident of Zhangjiagang (張家港), my "developmental community" on the Yangzi River (長江) north of Suzhou (蘇州), told me that cadres there were very corrupt; but because these local officials were also adept at growing the economy, villagers did not complain.

Boone's question resonates, however, with Shu Keng's (耿曙) critique that, in emphasizing individual rather than national interests as a motivating force for central leaders, I fall prey to the hegemonic influence of the rational choice or economic incentive perspective that, he believes, monopolizes political science. Instead, Keng sees the desire to make the nation "rich and strong" (富強, *fuqiang*) as a major determinant of central elite behavior. To his credit, this concern may explain both the limited predation at the center as well as why central leaders decentralized so much authority to the local levels, yielding opportunities for payoffs and personal aggrandizement to the localities.

However, as Wang Hongying (王紅纓) asserts, I did highlight elite visions and elite learning as an important force in shaping the opening, although, as she says, I did not spend that much time on this issue.[1] I have always believed that top leaders can be deeply influenced by values, not just power. In my first book, I challenged Lucian Pye's assertion that factional power was the driving force behind all policy in China.[2] Leftists, such as Zhang Chunqiao (張春橋) and Chen Boda (陳伯達), showed a consistent radical policy perspective throughout their entire careers. Zhang Chunqiao cited the dangers to socialism of "bourgeois rights" in the graduated wage system during the Great Leap Forward (大躍進),[3] long before the 1975 debate on "bourgeois rights" took place. Conversely, Zhao Ziyang (趙紫陽) was a consistent market reformer throughout his entire career. Thus leaders on the far edge of an elite value continuum—which in the 1980s ran from liberal market reformers to Maoist-leftists—were far more likely than centrists to be wedded to particular policy programs or belief systems. Still, according to Hamrin, such leaders are forced to horse-trade parts of their "policy packages" in order to get some of their goals implemented.[4]

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[1] I did discuss the role of elite in the process of internationalization in a section on pp. 27-29 and looked at elite views for each of the four case studies.

[2] For Pye's view, see Lucian Pye, *The Dynamics of Chinese Politics* (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1981). My critique appears in *Agrarian Radicalism in China, 1968-1981* (Cambridge, Mass.: Harvard University Press, 1989), 36.

[3] *People's Daily*, October 13, 1958.

[4] Carol Hamrin, "Competing 'Policy Packages' in Post-Mao China," *Asian Survey* 24, no. 5 (May 1984): 487-518.

Returning to my present study, we see that Zhao Ziyang was far more sympathetic to internationalization than was Chen Yun (陳雲).[5] Aware of the vitality of China's localities, Zhao trusted them with greater authority than politicians who had only experienced life at the political center, such as Li Peng (李鵬). Note the different attitudes of Li and Zhao towards the role of rural industry in China's export-led growth in 1987-88. While Zhao championed their role, Li attacked them for usurping the role and resources of China's state-owned enterprises. Zhao's views also progressed over time: his trade policies, including his Coastal Development Strategy, introduced in 1987-88, were far more liberal than his 1984 strategy under which he only opened fourteen coastal cities and granted twelve of them export processing zones. Deng Xiaoping (鄧小平), while cautious in the late 1970s, invigorated the localities through his "southern tour" (南巡, *nanxun*) in 1992. New leaders make a difference,[6] so as leaders changed, so did China's policies—a strong indicator that values, not just power, motivated many Chinese elites. Also, as the political and economic context changed in the years after the 1978 Third Plenum of the CCP's Eleventh Central Committee, the content of the reform package could evolve. Moreover, in *Internationalizing China* I argue that Deng opened the coastal regions to international forces not because of political needs—to build a political coalition or strengthen his political constituency[7]—but for economic reasons. The coastal areas—having a comparative advantage in trade due to their location, harbors, and overseas Chinese experiences—therefore had to lead the battle for "strengthening the nation."

Finally, one could anticipate that the Hu Jintao (胡錦濤)-Wen Jiaobao (溫家寶) leadership group would be less willing to make new concessions after China's WTO accession. Far more deeply concerned about rural poverty and inequality, their ideological predilections should cause them to

[5]David Bachman, "Differing Views of China's Post-Mao Economy: The Ideas of Chen Yun, Deng Xiaoping, and Zhao Ziyang," ibid. 26, no. 3 (March 1986): 292-321.

[6]Valerie Bunce, *Do New Leaders Make a Difference? Executive Succession and Public Policy under Capitalism and Socialism* (Princeton, N.J.: Princeton University Press, 1981).

[7]Susan L. Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1992).

protect the countryside from further external pressures.

Is Internationalization Mere Marketization?

Shu Keng argues that my definition of internationalization—increased flows of goods and services across international borders *and* decreased regulatory controls over those transactions—reflects little more than marketization in the international realm. Perhaps I need to clarify or even rethink my definition, as my own sense of what characterized China's opening was the central government's effort to gain from the benefits of transnational exchanges *without* giving up all power to the international marketplace. The goal was a mercantilist system—lots of flows but continued regulatory controls. Much of the deregulation that occurred was unintended. Central leaders hoped their local agents would monitor and control the flows, but both societal demand for exchanges and the benefits to local officials from increased flows—what I call, "no flow, no dough"—eroded their authority, increasing the role of market forces.

Perhaps I would have been better-off just employing Keohane and Milner's definition of internationalization—"a process that can be empirically measured by the growth in the proportion of international economic flows relative to domestic ones"[8]—and leave out the issue of regulatory controls. In the text, I constantly pointed out empirical indicators of internationalization: for example, town and village enterprise (TVE) exports as a share of total TVE production (table 3.7, p. 122), or overseas Chinese graduate students as a share of all new Chinese graduate students worldwide (table 4.2, pp. 176-77). The increase in the share of transactions that were global, rather than domestic, clearly reflects the internationalization of the Chinese economic and social system—even if the transactions occurred under bureaucratic controls. However, so long as state agents con-

[8]Helen V. Milner and Robert O. Keohane, "Internationalization and Domestic Politics: An Introduction," in *Internationalization and Domestic Politics*, ed. Robert O. Keohane and Helen V. Milner (Cambridge: Cambridge University Press, 1996), 4.

trolled these flows through a wide assortment of regulations, the development strategy reflected a mercantilist/developmentalist one, as reflected in quadrant C (Figure 1.1, p. 25).

Internationalization, however, should involve decreases in the level of "at the border" regulations, what the World Bank calls the "deepening" of economic integration.[9] This would allow for even greater flows of goods and services occurring beyond the control of the state's agents, making deregulation an important aspect of internationalization. However, if most exchanges are carried out by independent non-governmental organizations, private firms, or multinational corporations, then are we not really talking about globalization? Perhaps, then, internationalization should be seen as a transitional stage between mercantilism and marketization, where administrators control flows but, due to the increase in transnational exchanges, are gradually losing control over these flows.

In that sense, internationalization is a continuum that runs from highly "regulated" to highly "unregulated" internationalization, with the former reflecting "mercantilism," and the latter, "marketization." Yet reforms can get bogged down in such "transitional" stages[10]—in this case where high levels of transnational flows occur under administrative or regulatory controls in what I call the "bureaucrats paradise." This situation is also characterized by "disintegrative corruption," which threatens the political system.[11] On the other hand, highly deregulated exchanges do not necessarily reflect successful marketization, as some degree of regulation is absolutely essential for markets to function effectively.[12]

[9]Cited in Susan L. Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms* (Washington, D.C.: The Brookings Institution, 1994), 6.

[10]Joel S. Hellman, "Winners Take All: The Politics of Partial Reform in Post-communist Transitions," *World Politics* 50, no. 2 (January 1998): 203-34.

[11]Michael Johnston, "The Political Consequences of Corruption: A Reassessment," *Comparative Politics* 18, no. 4 (July 1986): 464-65.

[12]Steven K. Vogel, *Freer Markets, More Rules: Regulatory Reform in Advanced Industrial Countries* (Ithaca, N.Y.: Cornell University Press, 1996).

Transition vs. Consolidation: New Organizations as Rent-Seeking or Institution-Building

Shu Keng feels that I overstate the negative aspects of building new institutions, emphasizing their "rent-seeking" implications, while I ignore the fact that China created a host of new organizations, rules, and norms which facilitated internationalization by consolidating and regularizing exchanges and successfully managing China's integration into the world economy.

Let me admit my bias. Deeply influenced by Balasz's classical essay, "The Permanent Bureaucratic Society,"[13] I often saw efforts to establish transnational linkages as a strategy for the enhancement of bureaucratic authority. Admittedly, since many of my interview questions sought to confirm this hypothesis, I may have understated the extent to which bureaucrats established new organizations to institutionalize China's global integration. Nevertheless, I did listen if a bureaucrat rejected my view that internationalization enhanced their bureaucratic "establishment" (i.e., the size and power of the bureaucracy).

In interviews with foreign donors, I accepted their views (which were at times confirmed by Chinese officials) that much of the initial investment in development projects in China went to build the Chinese counterpart's "institutional capacity"; this capacity trained bureaucrats to manage projects and gave them the longer-term capabilities to compete globally for other foreign aid projects. Also, I accepted the Chinese view that they tried to wrench control over projects from foreign organizations because foreign advisors were too expensive and reflected a global "aid game,"[14] while Chinese themselves felt increasingly competent to manage aid projects. From a similar positive perspective, high-tech zones are new institutions that facilitate exchanges and introduce foreign technology. Route 128 in

[13]Etiene Balasz, "The Permanent Bureaucratic Society," in *Chinese Civilization and Bureaucracy*, by Etiene Balasz (New Haven, Conn.: Yale University Press, 1977), 13-27.

[14]Robert L. Ayres, *Banking on the Poor: The World Bank and World Poverty* (Cambridge, Mass.: MIT Press, 1983).

Boston, Silicon Valley in California, and Taiwan's Hsin-chu (新竹) High-Tech Zone reflect efforts to create synergies among technological firms. Universities created Foreign Affairs Offices (外事辦公室, *Waishi bangongshi*), Departments of Foreign Students (留學生部, *Liuxuesheng bu*), and other organizations to facilitate academic exchanges. Equity joint ventures established rules by which Chinese enterprises could work with foreign companies.

Yet, these types of organizations, what I call "channels of global transaction," were often the target of bureaucratic competition and bureaucratic "raiding" or takeovers. Chinese and foreigners in the aid sector often described how some Chinese agencies fought to control foreign projects in order to expand their wealth and influence. Moreover, many of these institutions were driven by local interests, what Steve Goldstein has termed "the pathologies of reform."[15] Note how development zones were transformed into a massive land grab, as land became collateral by which local cadres could get loans from the banks. Local officials established over eight thousand development zones by the summer of 1993, many of which were forced to close by then Vice-Premier Zhu Rongji (朱鎔基). This trend has reemerged with a vengeance in the past few years, showing that weak institutions (i.e., soft property rights in land) can turn urbanization and zone development into corrupt activity. "Rent-seeking"—using regulations to charge fees for individual or bureaucratic aggrandizement—is common in the transnational sector, as shown at a theoretical level by Krueger, with the concept being applied to China by Wu Jinglian (吳敬璉).[16] Therefore, when I went looking for such behavior in China, I found it.

No doubt, under pressure from the WTO, China is creating many regulations that should facilitate effective, market-oriented exchanges. More rules can create better markets. Nevertheless, central bureaucrats

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[15]Goldstein introduced this term in his formal comments on a paper I presented at the "Workshop on Institutional Aspects of Chinese Reforms," Harvard University, April 1995.

[16]Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 74, no. 3 (June 1974): 291-303; and interview with Wu Jinglian, in *Jingji ribao* (Economic Daily), April 6, 1993, 7, in *FBIS-CHI*-93-082 (April 30, 1993): 17.

continue to use loopholes in the WTO to protect vulnerable economic sectors. Regardless of whether such rules create rents or abet corruption, they do not necessarily consolidate or institutionalize transnational exchanges. Instead, they highlight the continuing role of bureaucratic interest in China's ongoing process of internationalization.