

**Benjamin L. Liebman and Curtis J. Milhaupt (eds.) *Regulating the Visible Hand: The Institutional Implications of Chinese State Capitalism*, Oxford University Press, 2016, pp. 454**

The research agenda on the remarkable economic success of China is not recent. However, the development of Chinese capitalism in the past three decades has never stopped providing us with fresh puzzles, particularly as the comparative capitalisms literature has effectively been developing alongside it. This volume sets out on a course to offer insights into the development of Chinese state capitalism, understood as an economic approach with high levels of state participation in the economy, particularly via the SOEs or state-owned enterprises in the context of a governance structure, which is nondemocratic from the Western perspective, but evolving alongside capitalist forms of organization (xiv). The volume is ambitious in its sheer size, spanning 454 pages of contributions by 23 expert authors over 18 texts (an introduction and 17 chapters). Following the introduction by the editors, Benjamin Liebman and Curtis Milhaupt, the book develops into three parts: *Domestic Institutional Implications* (by far the largest, with 12 chapters dealing with a number of subjects, ranging from social relations and the environment to state-owned enterprises), *Global Institutional Implications* (2 chapters) and *Chinese State Capitalism in Comparative Perspective* (3 chapters).

In the first chapter, Feng Deng explores the evolution of regulation pertaining to Chinese SOEs, crucial as they are in explaining the specificity of Chinese capitalism. Their role in the Chinese economy is enormous and their management is inextricably linked to the Chinese Communist Party (CCP), not least in the ideological sense, whereby they can showcase the functionality of the Party-led capitalism, even as their overly bureaucratic structure necessitates inefficiencies. The chapter tracks the Chinese SOE system as developing from an originally Soviet blueprint and being imperfectly modelled after Singapore in the 1990s. In Chapter 2, Donald Clarke analyzes the Chinese assimilation of Western corporate law into the state sector. With the indicative title “Blowback”, this chapter deals with the inadequacies of such a transplant, particularly as the underlying desire was to create a unified corporate law for the privately

owned firms and SOEs. The needs of these two categories are substantially different and the imposition of requirements of one on the other can bring much cost and little gain. In Chapter 3, Nicholas Calcina Howson questions the usual conceptualization of great power the CCP holds over the corporations. The China Securities Regulatory Commission is an agency that constricts the power of the state and party in favor of minority shareholders. Such a protection of “state from itself” (49) is a crucial moment as these constrictions enable the functional ability of Chinese corporations to attract investments from abroad and therefore the continuity of state capitalism itself.

Liao Fan discusses the importance of rising debt levels of local government in Chapter 4. It is widely understood that the administrative functions of the local government in China are such that we can invoke a *de facto* Chinese federalism. However, the local administrative functions are not matched by the fiscal capabilities after the 1994 tax reform (75). This situation was exacerbated by the stimulus package after the global financial crisis of 2008, which has laid a significant fiscal burden on local governments in China. The paradox is “resolved” by the proliferation of Local government financing vehicles (LGFVs), which are separate corporate entities using assets at the disposal of local governments (primarily land) as collateral for debt funneled back to local governments. LGFVs significantly contributed to the rising local debt levels – which stood at a third of Chinese GDP in 2013 (70). This demonstrates an important move in the Chinese economy though which the land is essentially monetized, and sparked a reform of the Budget Law in 2014. In Chapter 5, Angela Huyue Zhang tracks the attempts to curb the economic and political power wielded by Chinese SOEs through the Anti-Monopoly Law of 2008, the first modern anti-trust law in China (85). In the next chapter, Wei Cui takes a more conceptual tone in asking what the effects of taxing the SOEs (beginning in the early 1980s) might be. In Chapter 7, Li-Wen Lin questions the leadership reform in Chinese SOEs. With both the board of directors and the managers being chosen by the state owner (and therefore ultimately the CCP), the careers in SOEs can be carefully managed by the Party. The author analyses data on SOE executives and finds great cohesion in terms of affiliation with the Party, education and career tracks – meaning that the managers in SOEs are, unsurprisingly, system insiders.

In a crucial chapter titled “Legal Informality and Human Capital Development in China” Ruoying Chen contributes to the debate on institutions and growth. Whereas it is usually considered that developed capitalisms managed their economic growth through reducing uncertainty through high quality legal frameworks, China is one of the countries that enjoyed sustained high growth rates even with a very lax approach of legal informality. Chen argues that, while informality may have reduced costs and contributed to growth in early development stages, it is a very dangerous tendency in view of future growth as it reduces the capabilities of risk assessment and man-

agement. In Chapter 9, Curtis Milhaupt and Wentong Zheng highlight an important reform package instigated at the 3<sup>rd</sup> Plenum of the 18<sup>th</sup> Congress of the CCP (2013), directed at a redefinition of market-state relations through a mixed ownership model for the powerful SOEs of China. However, the authors of this chapter argue that a mere rebalance of ownership should not have a truly important effect as the porous institutional structures and weak political accountability (201) make for a political-economic environment in which the privately owned and state owned companies are equally intertwined with the Chinese state. Zheng Lei, Benjamin Liebman and Curtis Milhaupt use Chapter 10 to explore the relationship of SOEs with the legal system in China. Not only are the local courts under pressure from the Party intertwined with SOE management, but large companies may habitually disregard the decisions of the courts, while sometimes courts will seek a partnership with SOEs (the authors of this chapter call these three types of behavior paternalism, prodigal son and partnership, respectively). All of this suggests that “SOEs constitute a major obstacle to the development of robust state governance capacity” (222).

Mary Gallagher explores the social relations in China as embodied in labor market institutions in Chapter 11. Through the past reform decades, China maintained a general balance between the contradictory impulses of state control and competition (227), and this is evident in its labor policies as well. The old socialist “iron rice bowl” privileges were effectively changed only by the 1995 National Labor Law, which was fairly ambitious in its formulations of labor protections and rights on paper. However, the structuring of labor markets were largely left to market forces, which resulted in rising wage inequality, job insecurity and high levels of labor disputes. In 2008 the second foundational labor law was passed, as well as a law on dispute resolution. The new and better protected position of Chinese workers plays well into Chinese attempts to boost domestic consumption. The first part of the book concludes with Chapter 12, in which Alex Wang discusses the intertwining issues of SOE political power and the capacity for implementing an environmentally minded agenda. Although this political power may serve to eschew the environmental burden from the business perspective, Wang argues for a clear possibility for delivering green development through accommodating the powerful SOE players. The links between state and SOEs may therefore serve to forward the imperfect but functional Chinese path to sustainable development.

The much smaller second part of the book consists of only two chapters dealing with global implications of Chinese development. The first is written by Karl Sauvant and Michael Nolan, and deals with the substantial increase in Chinese outward FDI. The substantial economic success of China has rapidly turned it into a globally notable FDI exporter, although its outward FDI stocks remain relatively low as a consequence of the relatively recent increase of outward flows. This chapter analyses the perceptions

in host countries and the changes in the Chinese legal framework covering FDI, particularly the International Investment Agreements. The second chapter of the second part of the book is written by Mark Wu, and covers the relationship between China and WTO, strained by the inability of WTO rules to account for specific Chinese economic organization.

The third part of the book attempts specifically to tackle Chinese capitalism in the comparative perspective. The first chapter is authored by Katharina Pistor, Guo Li and Zhou Chun, and explores the hybrid nature of the financial system in China. They chart its structure to argue for an interpretation of a system intertwining state and market as a functional mechanism of risk handling in financial markets. The second chapter is written by Mariana Pargendler, and provides a digression as it contrasts Chinese state capitalism to the case of state capitalism found in Brazil. The last chapter of the book is one of the more important ones. Aldo Musacchio and Sergio Lazzarini offer a framework (building on their previous work) of two types of corporate governance problems: Type I, pertaining to the principal-agent problem in the control of managers, and Type II, pertaining to the need for SOEs to act toward various conflicting objectives (social, political, economic). These are contrasted with various modes of government involvement in SOEs and concludes that Chinese solutions to these issues are similar to those found in many developing countries. They conclude that state capitalism has proven itself as a resilient form, with implications for global capitalism that are yet to be fully understood.

The book can safely be recommended to anyone interested in Chinese political economy in general or SOEs specifically. There is a clear disbalance between the three parts of the book, with the part dealing with domestic institutions being more than twice the size of the other two parts (on global institutional implications and comparative perspective) put together. Nevertheless, domestic institutions are indeed the most important, considering the aspirations of the book. The ground covered through all three parts is vast and conceptually envelops SOEs in China between various points of view dealing with the political, social and global aspects, all of which have an unfortunate tendency of absence in more traditional and sterile research. Indeed, the relatively large number of chapters, expert contributors and content puts this volume halfway toward becoming a handbook on Chinese state capitalism. The reading experience is certainly similar as each new chapter, over some 450 pages, necessarily creates a specific structure and follows its own goals, somewhat straining the reader. However, it also allows for a partial reading of only those chapters that illicit interest, without a fear of becoming lost in the structure of the book.

Overall, the classical trap of edited volumes is avoided – the chapters manage to produce a whole greater than the sum of its parts. Most contributors do not meander in random directions but remain true to the book's purpose. Consequently, we are not

left with an overambitious attempt, but with a useful prism whereby an overlapping issue is broken into a myriad of approaches within the 18 contributions. As the sustained and remarkable economic growth and development in China slowly but surely translate into a globally felt political and military heft, the mystery of Chinese economic organization grows in importance. And, troublingly, it has remained a mystery to a certain extent, as the most successful typologies explaining developed market economies (*e.g.* Varieties of Capitalism) have remained at a loss when faced with the political and economic idiosyncrasies found in China. With the logical arch of this volume spanning from the regulation pertaining to the largest economic subjects in China and finishing in the comparative issues of Chinese capitalism, unafraid to tackle questions such as labor organization, Party political elites and international implications along the way, it is well poised to become another useful voice.

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