


Getting China's Political Economy Right: State, Business, and Authoritarian Capitalism

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China's Gilded Age: The Paradox of Economic Boom and Vast Corruption. By Yuen Yuen Ang. New York: Cambridge University Press, 2020. 266p. \$39.99 cloth, \$29.99 paper.

Disaggregating China, Inc.: State Strategies in the Liberal Economic Order. By Yeling Tan. Ithaca, NY: Cornell University Press, 2021. 240p. \$49.95 cloth.

Governing and Ruling: The Political Logic of Taxation in China. By Changdong Zhang. Ann Arbor: University of Michigan Press, 2021. 350p. \$85.00 cloth, \$39.95 paper.

Introduction

There is no doubt that the political economy of contemporary China has received significant attention, both in academic disciplines and in the real world. The role of the state in the economy and the relations between government and business actors have always been central concerns of classic social science works about China. There are, however, several crucial challenges in studying this topic. The complicated landscape of a multilayered, fragmented Chinese state and numerous state-owned, private, foreign, or mixed-type businesses has made it difficult to tease out their interactions and establish a comprehensive theoretical model. The fast-changing nature of state–market relations and their vast subnational and sectoral variation has often prevented scholars from generalizing those lessons beyond the case or issue area. Yet, among all these, the most daunting challenge is: How can studies of a particularly interesting phenomenon in China's political economy contribute to broader discussions of state–society relations, regime durability, and state-led development without losing respectable country expertise?

Three recent books, representing the most current scholarship on China's political economy, have emerged to take on these challenges. Collectively, they have built theories of state–market and state–business relations by disaggregating and unbundling the state and its impact

on economic performance and political governance. They have also gone beyond the conventional state versus market, liberal versus illiberal, and corruption versus growth dichotomies by revealing the concrete institutional context in which states and business actors are embedded, and how such context shapes their interests and choices. Methodologically, the authors have all employed innovative tools combining field interviews and case studies with statistical and textual analysis, thus drawing on a wealth of qualitative and quantitative data. Together, they highlight three themes and research directions. First, they raise the importance of using a patron–client perspective in understanding state–business interactions under authoritarian rule. Second, their works shed light on the nature of Chinese state capitalism and its relationship with the markets and the private sector. Finally, they all emphasize an evolutionary approach rather than a static typology in studying state development strategy, and they seek to place the case of China in a comparative perspective with other countries.

Viewing China's Political Economy through Different Lenses

Changdong Zhang's *Governing and Ruling* proposes one of the most ambitious theories to explain how the Chinese state uses taxation to govern businesses and

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maintain authoritarian rule. Fundamentally, the book goes beyond the issue of taxation by tackling the essential governance problem faced by authoritarian regimes, that is, exercising social control, eliciting cooperation, and disciplining local agents. Within this context, taxation requires achieving the contradictory goals of acquiring taxpayers' compliance, preserving economic growth as a source of legitimacy, and simultaneously fending off demand for political representation. Zhang shows how China's institution of taxation was able to alleviate these problems. Among other mechanisms, the interregional tax competition constrains the government's predatory behavior, and the co-optation of entrepreneurs into local legislatures helps to generate growth. At the same time, an underinstitutionalized system with rampant tax evasion also makes taxpayers vulnerable to the state's selective penalty, creating incentives for them to seek protection.

Yuen Yuen Ang's *China's Gilded Age* also seeks to unravel state-business relations behind China's growth and explains another seemingly contradictory phenomenon: how China was able to experience both rapid economic growth and vast corruption. For Ang, the key is to unbundle distinct types of corruption. Unlike petty theft, grand theft, and speed money, the type of corruption she terms "access money" is different in nature. It involves businesses offering bribes to the government officials in exchange for monopolized contracts and favorable resources such as land, credit, and regulatory exemptions instead of simply embezzling money for self-use. And rather than only "greasing the wheels" like speed money, access money involves major exchanges between political power and development projects. Access money has risen to become the dominant type of corruption in China in the period of the country's "gilded age," which stimulates growth but also generates overinvestment and inequality, similar to the same phase in the United States. When such corruption was targeted and cracked down on in a major campaign, the state also repressed the incentives for local actors to make further exchanges and paralyzed their incentives to seek further growth.

Yeling Tan's *Disaggregating China* takes seriously the complexity of the domestic political economy, like Zhang's and Ang's books, but places her argument against the international background. She examines domestic responses to the pressure of liberalization from China's entry into the World Trade Organization (WTO). Tan shows that rather than converging to liberalization or falling into a bifurcated response of liberal or protectionist, there has been a broad range of policy responses from the multilayered bureaucracy of the Chinese state. Some reactions are regulatory and market enhancing, such as improving trade law and product quality. Others are developmental, shaping markets through tax breaks and

subsidies, or even directive, which substitutes markets with administrative planning. These varied responses to the same shock originated from the choices of government actors (the party-state and various ministries regulating trade and industries). They evaluate the probability of being sanctioned, prospects for political advancement, and the possibility of using international leverage to push for domestic reforms.

Toward Patron-Clientelism: State-Business Collusion under Authoritarian Rule

The three insightful volumes discussed here have brought forward several common themes and research agendas. The first such theme certainly revolves around a deeper understanding of state-business relations in an authoritarian regime, where its institutional environment shapes bureaucrats and business behavior. Jointly, the books paint a scenario filled with dilemmas: Government officials are both corrupt and development promoting; the state seeks cooperation from businesses but also exercises significant political control; and businesses are entrepreneurial but seek political protection and engage in rent seeking. These dilemmas are rooted in China's goal of maintaining economic growth as a key source of its legitimacy and preventing major political changes to its authoritarian rule.

On the one hand, China's political and fiscal institutions since the 1980s have created strong incentives for bureaucrats to promote economic development. Their choices are based on calculations of political career advancement (Tan), compensation (Ang), and fiscal resources at hand (Zhang). The cadre evaluation system, where upper-level governments evaluate lower-level officials based on indicators, has associated economic performance with bureaucrats' political bonuses, monetary compensation, and kickbacks. This means promoting growth, industrialization, and investment bringing direct benefits. Meanwhile, the fiscal system made localities responsible for raising their own revenue to cover the overwhelming amount of local expenses after submitting most of the taxes to the central level. This arrangement, as both Ang and Zhang mention, instilled strong incentives for officials to expand revenue sources through industrial investment, land leasing, and other means. Finally, interregional competition in the form of a de facto fiscal federalism further intensified the race to attract investment and capital (Zhang).

The authors all highlight a range of concrete activities the state engaged in and the resources and policies bureaucrats control when promoting business development. Among other measures, government officials offer construction contracts and monopolized resources such as credit, land, and regulatory exemptions to connected businesses (Ang). They promote technology upgrading,

attract skilled labor, and form joint ventures for technology learning and transfer (Tan). They have allowed or turned a blind eye to widespread tax evasions and loopholes to reduce the actual tax burdens (Zhang). Such a wide range of policies and activities has facilitated economic and industrial growth, acting like steroids for the economy, as Ang notes vividly. However, state intervention has also generated corruption, overinvestment, an uninstitutionalized tax system, and distorted industry structures. The policies are productive and malicious at the same time, with a mix of market-facilitating and market-distorting activities.

On the other hand, while promoting growth, the state seeks every measure to keep the upper hand in state–business relations and maintain political control, which contributes to authoritarian resilience (Andrew Nathan, “Authoritarian Resilience,” *Journal of Democracy* 14(1), 2003). State officials provided resources to their business clients and rewarded them through profit-sharing activities to consolidate their exchange relationship (Ang, chap. 5). The uninstitutionalized tax system acts as a carrot and stick to discipline businesses. It enables state officials to selectively punish tax evasions and create a sense of fear when businesses offend them, as Zhang (chap. 6) convincingly finds. Yet, in the meantime, the same system also allowed them to offer tax breaks through state–business collusion to businesses in their favor (Ling Chen and Florian Hollenbach, “Capital Mobility and Taxation: State–Business Collusion in China,” *International Studies Quarterly* 66(1), 2022). To fend off business demands for political representation and to co-opt them into the political apparatus the state also allows prominent entrepreneurs to join the local people’s congress.

Although all three volumes have paid far more attention to state officials’ incentives than those of businesses, they nevertheless provide insights on business incentives and strategies. To survive in an environment of uncertainty, corrupt capitalists bribe their political patrons to gain windfall deals, exchanging their wealth for power (Ang). Some enterprises, as Tan finds, seek “red hats” by cooperating with local enterprises and by using multiple nationalities on different occasions to allow for flexibility (p. 138). While businesses have actively taken the resources and opportunities the state has offered, they also fear being punished and therefore seek political protection, especially for private businesses. Thus, instead of resorting to collective action and pushing for democratization, as Zhang (chap. 6) shows, they join institutions such as local people’s congresses (often seen as rubber stamps) and use the positions to build opportunistic ties with governments. According to Zhang, this type of participation is fundamentally different from democratic representation because the primary goal is to build connections with their political patrons, and there is also significant vote buying in the

election process (p. 151). In a recent book by Yue Hou (*The Private Sector in Public Office: Selective Property Rights in China*, 2019), she similarly finds that businesses join the people’s congress to avoid government predation and use their positions as a substitute for the protection of private property protection.

As a result of institutions shaping state and business incentives mentioned in these various works, the patron–client relationship emerges as the primary way of structuring state–business interactions. This theoretical observation resonated with my book (Ling Chen, *Manipulating Globalization: The Influence of Bureaucrats on Business in China*, 2018), which argues that the patron–client relationship gave rise to state–business coalitions advocating for different policies at the subnational level. There are, however, exciting questions that remain to be explored. To what extent are bureaucrats and politicians competing to draw capitalist cronies, as Ang (p. 150) mentions, and to what extent are capitalists competing to nurture ties with government officials, as Zhang argues? Can one assume that transactional corruption between government and any type of business (including highly inefficient business) is always growth enhancing instead of growth suffocating? Do patron–client relations and the selective co-optation of business impede the process of democratic inclusion, or do they provide certain channels of voice? And finally, if state–business relations are the key for China to maintain growth and preserve authoritarian resilience, are such relations sustainable in the long run? These questions can only be answered through a detailed breakdown of different periods of state policies and business strategies and an analysis of state patrons and their respective business clients.

State Capitalism and Private-Sector Survival

The Chinese state not only influences businesses as government officials but also affects the economic structure through state capitalism. One of the central debates about China’s political economy is to what extent there has been the advancement of state capitalism based on state-owned enterprises (SOEs) and the retreat of private businesses (*guo jin min tui*). Tan’s book offers the most direct insight into this question. Tan views strengthened industrial policies and rising developmentalism starting in the latter half of the 2000s (especially starting in 2006) as core characteristics of state capitalism. While the Jiang-Zhu era used WTO entry as leverage to push for regulatory reforms, such leverage became weaker in the Hu-Wen period. But a more fundamental change took place in the ability of the party to discipline the state. The Jiang-Zhu leadership enjoyed sufficient autonomy from the central state, as their political support was in the provinces outside the central state. They were, therefore, able to discipline the state by carrying out promarket regulatory reforms

in the bureaucracy. In contrast, the Hu-Wen leadership's networks were embedded in the central state. They could not further discipline ministries by pushing for promarket reforms because these ministries were their constituents. Tan has mostly focused on state capitalism paired with industrial policies and developmentalism in contrast to the regulatory period before the mid-2000s, and hence was not primarily concerned with the relationship between state-owned and private enterprises.

Zhang's theoretical framing does not directly engage with the state versus private debate, but nevertheless provides helpful insights. Zhang points out that SOEs have been the backbone of the CCP rule and were the largest contributor to state revenue before 1978. Their contribution to state revenue has shrunk to 30 percent, subsequently, and even this share was often dominated by the collection of cigarette consumption and gasoline taxes unrelated to their actual economic performance. According to Zhang, SOEs were corrupt and inefficient, staffing hundreds of their family members at various levels (p. 258). In contrast, private firms' tax contributions increased from zero in 1978 to two-thirds by 2014 (p. 55). But unlike SOE managers who have formal party or government titles to make their voices heard, private businesses had to rely on local personal connections for trusting a location to make the investment.

This scenario opens up an opportunity for power-wealth exchange and corruption described by Ang. Although SOEs and private businesses both engage in corruption, Ang notes that the earliest form of corruption by SOEs was when they acquired goods cheaply at planned prices and sold them at higher prices on the market. After Beijing abolished state planning and implemented SOE reforms in the 1990s, "the state sector receded and the private sector flourished" (p. 59). Public employees of the state often took a cut of various profits, taxes, and fees generated, but overall, this type of activity can be seen as profit sharing, argues Ang, and did not impede growth in the early periods of the reform. Ang's understanding of profit sharing in the form of compensation for public employees did not equal direct embezzlement of public funds but something more like skimming from profit-generating economic activities.

How should we reconcile these different perspectives in the understanding of state capitalism? The concept of state capitalism is used to describe both the role of the state in the economy and the role of the SOEs. Sometimes it means a system where the state functions as the leading economic actor orchestrating developmental policies. Tan's understanding in the form of "heightened central state intervention into the strategic industries" (p. 12) is an example. In other instances, the concept refers to an economy where the SOEs played an essential

role (Barry Naughton and Kellee S. Tsai, eds., *State Capitalism, Institutional Adaptation, and the Chinese Miracle*, 2015). In both cases, though, these works suggest that China's political economy displays dualism. The economy has certainly moved away from central planning in the Mao era and unleashed market forces in various sectors. But the state also remains an active player in directing economic and industrial policies. There has been an overall significant increase in the volume of economic activities from the private sector. But at the same time, SOEs dominate the strategic sectors, and the playing field is tilted in favor of SOEs in policy support and channels of business lobbying. In fact, this dualist nature of being both state-dominated and attuned to markets is what the term "state capitalism" aims to capture (Mary Gallagher, "The Social Relations of China's State Capitalism," in *Regulating the Visible Hand?: The Institutional Implications of Chinese State Capitalism*, 2016).

But such dualism is not static and, in fact, is quite dynamic. There have been several periods noted by the authors of the books under review as well as by other scholars, which may serve as the potential turning points from promarket reforms to state capitalism: the rise of industrial policies and indigenous innovation in 2006 (Tan), the recentralization under Xi's regime since 2012 (Ang and Zhang), or even much earlier in the 1990s, when China's development turned from rural to urban (Yasheng Huang, *Capitalism with Chinese Characteristics: Entrepreneurship and the State*, 2008). The exact timing of the tipping points depends highly on the previously mentioned definition of state capitalism.

Further research can be conducted on the relationship among different aspects of state capitalism as well as the distinctive phases of the turning points. Does an enhanced role of state intervention in the market go hand in hand with the strategic position of the SOEs (not just rhetorically but also in reality)? Did the rise of industrial policies and indigenous innovation in 2006 signify an unfriendly environment for domestic private businesses, or did that point come much later? Are there any fundamental differences in the role of the state under the Xi era? Does the current period entail strengthened or weakened forms of crony capitalism in the sense of patron-client ties? Recently, Margaret Pearson, Meg Rithmire, and Kellee Tsai argued in a thought-provoking article that "party-state capitalism" has replaced "state capitalism" as the main feature of the Chinese economy ("Party-State Capitalism in China," *Current History* 120(827), 2021). For them, the need for the party state's political survival trumps developmental goals, with increasing political encroachment on the private sector and the urge to establish political loyalty. Party-state capitalism points to increasing

attention on how China reconciles the need to maintain political survival and the fact that economic development is often the very key source of legitimacy.

State Economic Strategy in an Evolutionary and Comparative Perspective

All three books study state economic and development strategies and take an evolutionary and comparative perspective instead of producing static snapshots. The evolutionary approach is anchored in Yuen Yuen Ang's previous book (*How China Escaped the Poverty Trap?*, 2016), which convincingly shows the coevolution and nonlinear path between state strategies and markets. She also demonstrates in her current book that even after China scrapped state-planned quotas and price controls in 1993, the state's role was not diminished but simply changed (p. 61). Officials created markets where they did not exist, fostered new industries, promoted investment, carved out urban zones, allocated projects, and engaged in corruption. Zhang also pays significant attention to this coevolutionary approach and, in fact, built his model based on Ang's (p. 98). As Zhang shows, in the first stage of development, with weak domestic markets but strong fiscal incentives to promote growth, local governments turned themselves into corporations and corporation-like entities by running township and village enterprises (TVEs), which produced rapid industrialization but also nepotism and inefficiency. As the TVE problems led to massive privatization, the governments changed their roles from corporation runners to agents that actively attracted investment, improving the local business environment (*yingshang huanjing*) and establishing development zones. As the markets became more mature, investment recruitment evolved into land financing and real estate development that unleashed urbanization.

Like Ang and Zhang, Tan goes beyond a simple dichotomy of proliberal and mercantilist policies. She disaggregates the development strategies into market substituting, market shaping, and market enhancing. Using web scraping, textual analysis, and case studies, Tan shows how different periods of the Chinese state deploy these policy tools in pursuing their development goals. Ang and Zhang trace the evolution and change of policies endogenously to the iterative, coevolution of state bureaucracy and the market. In contrast, Tan explains these policies through a set of conflicts within the state departments as well as the tension between the central and local governments. The former type of tension, as mentioned previously, reflected party leaders' constituents within the state, leading to the rise of market-enhancing regulatory reforms or interventionist industrial policies. The latter affects policies in specific sectors. While the central state seeks to utilize foreign investment to gain advanced technology as part of the developmental policies in the semiconductor industry,

local governments tended to use such investment to accumulate capital and generate gross domestic product performance, which led to the recentralization of developmental policies (chap. 5).

In addition to being very sensitive to the evolution of state policies, all three authors draw attention to the generalizability of the China case. Can lessons generated from China travel to other contexts? Ang's work engages with the comparative framework most directly and extensively. She argues that in the stage when China's dominant corruption type is "access money," it is similar to the "gilded age" of the United States. In both cases, the exchange of power and wealth triggered industrialization and financed major infrastructure projects while empowering political and economic elites. The difference, however, is that the United States proceeded into a Progressive Era when transparency-seeking journalists battled with the corruption crisis, whereas in China, Xi launched a top-down anticorruption campaign. Ang's theory also sheds light on other countries covered in her survey, especially India and Russia, where the dominant type of corruption has been speed money, which according to Ang's metaphor, works as a painkiller rather than a "growth-enhancing" steroid.

Tan also asks if lessons from China's heterogeneous economic governance strategy, especially developmental policy, can travel beyond China. The communist and postcommunist countries with central-planning legacies show similarities to China in response to liberalization pressure, but in addition, Tan also notes countries such as the United States and organizations like the European Union. Although regarded as liberal market economies, the United States and the European Union have a documented history of a wide range of science and industrial policies. Tan cautions against comparing China to any other authoritarian countries or assuming that authoritarian regimes can easily implement the liberalization decision. Rather, she highlights the comparability of China to other single-party regimes, where there can be similar struggles between the party and different segments of the bureaucracy.

Zhang places his study in a broad theoretical perspective of authoritarian regime survival and authoritarian resilience. For Zhang, China's taxation dilemmas are not only China's problems or taxation problems. Instead, they reflect the fundamental goal of exercising social control and seeking cooperation from the business class. This goal is not unique to China and can also be found in other authoritarian regimes. Given China's different state-building process compared to Western Europe, where taxation emerged out of wars, Zhang finds it more helpful to compare China with postcommunist countries such as Russia and Poland. "Russia is transitioning from a full communist to a rentier state while China is transitioning from a communist to a half-tax state" (pp. 235–36). But

China does not have the same rule of law and checks on state power as Poland.

Placing China in a comparative context as these authors did is highly valuable for theory building. Their works collectively demonstrate that it is possible simultaneously to have in-depth, on-the-ground knowledge and make meaningful conceptual and theoretical progress in broader theoretical frameworks. Which country is more comparable to China certainly depends on a researcher's focus. Russia and China are both postcommunist countries that abolished central planning and started a market economy under an authoritarian state. Comparing their transitional experience is thus essential for understanding the facilitators and obstacles to establishing healthy state–business relations. When sectoral components are also considered, India as another large emerging economy becomes relevant (see Roselyn Hsueh, *Micro-Institutional Foundations of Capitalism: Sectoral Pathways to Globalization in China, India, and Russia*, 2022). Western countries such as the United States are often regarded as not comparable to China due to the drastic differences in their political and economic systems. However, as long as one specifies the exact period and particular aspect of comparison, as Ang and Tan did, one would still be able to make a helpful comparison regarding state–business collusion and industrial policies.

Finally, in addition to what is mentioned by the authors, comparing China with other East Asia countries has been beneficial for understanding state-led development. Earlier works have made some such comparisons but have not entirely explained the factors leading to their differences. All these economies have experienced high growth periods accompanied by authoritarian regimes. One can use the general term “developmental policies,” as Tan does, to describe industrial policies. Still, there are crucial distinctions between China and the classic East Asia developmental states regarding market creation and resource allocation. Most of the supportive resources in China seemed to be allocated to the much less efficient

SOEs rather than the most efficient private firms, and the story is undoubtedly not directly “picking the winners,” as developmental states did. The Chinese state also faces more intense international liberalization pressure than its East Asian neighbors. The economy, however, was nevertheless able to achieve four decades of unprecedented growth without changing its major political institutions. That is why China's economic performance and its political configuration have always been an intriguing puzzle to many scholars.

Conclusion: The Rise of Authoritarian Capitalism?

China's political economy was long a critical topic for leading scholars of the China field, and it has recently reemerged as a key area for scholarly investigation. Terms that describe the Chinese economy have gone from “market-preserving federalism,” “sino-capitalism,” and “capitalism with Chinese characteristics” to “state capitalism” and “party–state capitalism.” The theoretical concern has also gradually shifted from explaining China's economic growth without private property rights to explaining the strategies that the Chinese state adopted to maintain authoritarian rule and continue its economic performance under internal and external pressure. Through the study of taxation, corruption, and state industrial strategies under global pressure, these three volumes show the political logic behind these institutions and policies as well as their economic consequences. Compared to the previous generation of scholarship, concerns about authoritarianism, authoritarian resilience, and the interactions of these political variables with business interests have become more prominent. The themes highlighted in this essay, such as patron–client ties, state capitalism, and economic strategy, point to the need to further disentangle the actors and institutions at the nexus of capitalism and authoritarian governance, which may foreshadow the eventual rise of authoritarian capitalism in China, and perhaps elsewhere.