

China Economy Lecture Series featuring Yeling Tan – Disaggregating China, Inc: State Strategies in the Liberal Economic Order, October 7, 2021

– Hello everyone, and welcome to today's lecture. We will get started momentarily, after we give another minute or so to give people a chance to log on. Thank you very much for joining us.

– All right, thank you everyone. I see some participants are still trickling in, but let me welcome you to the Fairbank Center for Chinese Studies seminars series on the Chinese economy. I am Meg Rithmire, I'm an associate professor at Harvard Business School, where I am lucky enough to convene the seminar. Before I announced today's speaker, who we're lucky to have, let me just give one announcement, which is that we'll have the second meeting of the semester on Wednesday, December 1st, at the same time, 4:00 PM, and we'll welcome Professor Stephen Kaplan from George Washington University to speak on his new book on Chinese finance and Latin America. But today, we're very lucky to have Professor Yeling Tan. She's an assistant professor of political science at the University of Oregon. She has her PhD in public policy from the Harvard Kennedy School, so not far from us here, and has been a postdoctoral fellow at both Princeton and the China and The World program, and a fellow at the World Economic Forum's Council on the Future of International Trade and Investment. She is currently a public intellectual fellow at the National Committee on US-China relations. Her academic work and commentary has been published in Comparative Political Studies, Governance, as well as other scholarly journals, and Foreign Affairs, and more. And she has this excellent new book, as you see here on the screen, "Disaggregating China, Inc.: State Strategies and The Liberal Economic Order." So we're lucky today to have Professor Tan to speak to us. So logistically, she'll speak for about 40 minutes or so, about the book, and the Q&A function will be open. So at the end of her talk, we'll be very happy to field some questions and reactions from the audience. So please do type your question or your comments in the Q&A box and identify yourself if you'd like to, and I'm happy to ask your question to Professor Tan. So with that, I will thank you all for joining us and thanks to Professor Tan, and we're excited to learn from you.

– Thank you so much, Meg. And thanks also to the Fairbank Center for this very kind invitation to speak. I just wanted to say, before I start, that as a graduate student at Harvard, I attended so many of these talks at the Fairbank Center and just soaked up all of the knowledge. So it's particularly special to me today, and really a tremendous privilege to be able to speak at one of its events. And I'm looking forward to a really fun discussion. So let's get started. When China joined the World Trade Organization, 20 years ago now, back in 2001, the mood both in China and the rest of the world was jubilant. Expectations were high that this event would usher in a new era of

liberalization in the Chinese economy, and that through a common set of rules and mutually beneficial economic exchange, WTO entry would peacefully integrate a rising China into the international order. Bill Clinton, putting his case forward for China's WTO entry, argued that under the WTO, "Some of China's most important decisions "for the first time will be subject "to the review of international bodies "with rules and binding dispute settlement." Treasury Secretary, Larry Summers, similarly argued that by learning to "play by the rules," China will strengthen the rule of law, which will enable it to become a more reliable partner and a fairer society. So why were expectations so high around this event? This was in part due to the strength and depth of China's commitments to the WTO. As part of the Protocol of Accession, which you see here, the first page of China's Protocol of Accession, China promised a whole swathe of commitments. It promised to let the market, rather than the state, set prices of most goods; It promised to liberalize the right to trade to all firms, so not just state-owned enterprises; To improve the disclosure of information around economic policies; To commit to non-intervention in the operation of the market; To non-discrimination between domestic and foreign firms; To setting up institutions for the independent regulation of the market; And to strengthening the rule of law in governing the economy. In short, these commitments amounted to no less than a Herculean effort to transform China's economy from one rooted in state planning to one operating based on market forces. Now, fast forward to today, and the liberal internationalist promise of integration appears to have been replaced with disappointment and discontent. In 2018, the Trump Administration declared that it was a mistake to have allowed China into the WTO. In recent years, I've seen the number of dispute cases at the WTO involving China steadily increase. China has also clashed with both the European Union and the United States over its status as a non-market economy. And the EU and the US have also shifted their overall postures to treating China as a strategic competitor. Sanctions on Chinese companies, Huawei and ZTE, as well as a trade war that sees no end, have raised concerns that the world is headed towards a decoupling of its two largest economies. And importantly, this discontent with China within the United States is bi-partisan. Economic tensions have continued into the Biden Administration, with both the United States Trade Representative and Commerce Secretary sticking to the use of tariffs against China. The US, earlier this month, started considering a new Section 301 investigation that might lead to even more tariffs. And US Trade Rep, Katherine Tai, in a speech earlier this week, reiterated that all options remain on the table when managing relations with China. So therefore, in contrast to these integrationist expectations of two decades ago that I outlined earlier, a new conventional wisdom appears to have formed around China and the global trading system. They are, first, that the WTO has failed to alter China's economic model; Secondly, that China is instead seeking to build a state capitalist model; And third, that this model is being exported globally through Chinese SOEs and state-industrial policy. In my talk today, I will

question much of this conventional wisdom. And part of my argument will push against categorizing Chinese behavior into binary categories. Now, why is it important to do this? First, there are real limits to thinking about China's WTO experience as either a success or a failure. In my view, it overlooks these really important questions of when liberalizing reforms did take place and why. And it also disregards the puzzles of the specific timing when those reforms slowed down and why. More broadly, political science literature tends to categorize state responses to global rules into binaries, protection versus liberalization, compliance versus defiance, and these frameworks, while useful, tend to impose binary's on state behavior when, in fact, the choices available to states are wide ranging, and they can choose from a great variety of policy instruments when considering how to respond to global rules. So instead, I argue that we have to consider how responses to these global rules are mediated by state structure and by politics within the state. Now, why do we care about politics within the state? I argue that we care about this because the main burden of adjustment to WTO entry fell on China's massive state apparatus. And I quote here from an interview with a Chinese Central Party school official, who said, in a journal, "The WTO entry is an important strategic move "for our country's economic development, "but also brings along with it a problem, "which is how the Party, "in its decision and policy-making process, "can defend China's national interest "and socialist principles "while fulfilling international norms "and WTO rules." He goes on to say, "The biggest shock of the WTO to China is aimed "at our government, "and we are a government governed "by a single party. "So, in reality, the ones who will feel "the shock will be the party's administrative "and leadership methods." Now, one might argue that single party rule in China means that whether or not WTO entry leads to liberalizing reforms depends mainly on the leadership and its preferences, and therefore we should just focus on the leadership rather than the overall state structure. But I argue that the bureaucracy and other political actors within the state can often make things hard, or easy, for the leadership. And I quote here from Deng Xiaoping himself, that "Once a political line is established, "one must implement it. "So depending on who is in charge of implementation, "those who support the party line, "those who do not, "those who take the middle of the road position, "the results will be different." So it's really important to pay attention to the WTOs impact on intra-state politics in China. My book therefore is structured around two main research questions. First, what are the range of strategies that the Chinese state can adopt to engage with the WTO rules? And secondly, why did some parts of the Chinese state adopt more liberalizing reforms than others in response to WTO entry? So starting with the first question on the range of strategies, to consider this, we have to begin with China's history of reform and opening, which I hope... I would assume many in the audience are quite familiar with. This history was very much a non-linear process, involving policy experimentation and an incremental approach to

liberalizing the economy. As much literature has documented, China's leaders created spaces for new policies around the planned economy, rather than replacing it outright. New agencies were created to lead reforms... To lead reforms alongside old ones. And the result of this layered approach to change is that older mindsets and policies remained in the governing system, even as China's economy took off, such that there was really no agreement within the vast Chinese party state over this question of how best to govern the economy. So how do we characterize these disagreements? Broadly, I proposed characterizing these various disagreements as coalescing around three competing modes of economic governance. The first is what I call the "Directive Strategy," which is, one could say, market-substituting in nature. It relies on administrative guidance and the state allocation of resources rooted in China's command economy. So one example of a directive state strategy would be the setting of production targets for firms. So rather than letting the market drive production outcomes, to set the targets ahead of time. The second is the "Developmental Strategy," which is market shaping in nature rather than market-substituting. And this particular state strategy would involve the use of state incentives to attract from activity to one sector, instead of another. One example might be tax breaks to draw firms towards high-tech sectors. And the third is a "Regulatory Strategy," which I propose to characterize as market-enhancing in nature. And here, what the state does is to act to set and enforce rules that enhance the functioning of the market. So for example, in setting standards to enhance interoperability within the economy, in here market outcomes will depend on firms competing on a level playing field within these rules, and then the overall market outcome will be the result of this firm competition. Now, these competing modes of governance are exacerbated by China's political structure, commonly described in terms of "fragmented authoritarianism," where multiple sub-state actors have the ability and the authority to influence economic policy. So not just political leaders here, but also central economic agencies, sub-national governments. And this means that even within China's authoritarian regime, there are the incentives of these various actors can often be misaligned, or even opposed to each other. And that implies that China's economic development is often the product of this internal political contestation, rather than the product of an overarching master plan. And the effects of globalization, and the effects of WTO entry, therefore will be mediated by China's fragmented state structure and its internal bureaucratic politics, and competition between these three competing modes of economic governance. So now, I would like to turn to the main question of the book, which is why some parts of the state adopted more liberalizing reforms than others in response to WTO entry. Here, the book examines a series of dynamics that played out across different parts of China's really vast and very highly complex state structure. So first, I look at China's WTO policy trajectories across administrative levels in China's hierarchical state. And secondly, in the second empirical chapter, I unpack the political responses within

China's really powerful central government in order to explain what has come to be called "The rise of Chinese state capitalism." And thirdly, in the third empirical chapter, I look across industries to examine how WTO entry affected China's quest to build national champions. Now, this analysis is obviously highly multi-dimensional, but the theory I propose to explain China's policy trajectories is fairly simple. So I argue that WTO entry essentially introduces two sets of new conditions that actors within the state have to respond to. The first is open competition brought about by economic liberalization. The second is a new set of bureaucratic rules, stipulating how the state should govern the economy. And these two new conditions combined have a profound impact in changing the incentives of actors within the Chinese state, which, again, although governed by a single party, is highly competitive internally. And so, I propose that the ways in which various bureaucratic actors respond to these new conditions depend, in very broad terms, on the probability of being sanctioned and the prospects of political advancement. Now, within this very simple cost-benefit framework, I show that the channels of sanction and advancement will vary depending on where an actor sits within China's complex state structure, to then affect whether policy responses are directive, developmental, or regulatory. Now, in order to capture the use of these different states strategies across different parts of the state and over time, what I did was I collected an original dataset of economic policies, which I scraped from the Chinese internet, containing laws and regulations issued by all arms of the central and sub-national governments, covering over 120 manufacturing sectors from roughly the start of the reform period in 1978, to 2014, comprising a document corpus of over 43,000 industrial policies, decisions, regulations, laws, guidances, and so on. So what this corpus contains is basically the overall ordinary language of China's economic bureaucracy. And then, I use machine learning techniques to uncover the various topics that are latent in these documents to identify the changing prevalence of directive policies, developmental policies, and regulatory policies, both over time and across different parts of the bureaucracy. And then this data analysis is combined with evidence from interviews, from leader speeches, from party documents, and so on. So turning to the main findings, let's start now with the hierarchical politics of WTO entry. So here, I argue that how the central and sub-national governments responded to WTO entry depends, firstly, on how accountable each authority is to the WTO. And secondly, whether the industrial diversity of each administrative unit meant that WTO entry increased opportunities for export, or did it raise the threat of import competition? And what I find is that the central government, at the highest level, responded to WTO entry with a surge in market-enhancing, liberalizing policies. So this figure that you see here shows the results of textual analysis of over 40,000 industrial policies, as I've just described, issued by the three by three main levels of government; Central government, the provincial government, and sub-provincial governments, such as counties and townships, over

the reform period. And the solid line that you see shows the prevalence of regulatory language, or market-enhancing language, in the central government's policies. The dashed line shows this prevalence for provincial governments. And the dotted line shows the prevalence for local or sub-provincial governments. And what you see is that prior to WTO entry, marked by the vertical line in 2001, there's no real trend distinguishing the three levels of government in terms of how much market-enhancing language they used in their policies. After WTO entry, we see a stark divergence, and there's a big increase in the market-enhancing content of the central government's policies. This is more so than the provincial government, and the lowest prevalence you see there is in the local, sub-provincial government policies. Now what lies behind this surge in liberalizing language in the central government's policies? Much of this liberalizing response was driven by the central government's really high degree of accountability to the WTO. So unlike provinces and counties, Beijing plays this role of sovereign representative of China at the WTO, so it has to account for its policies to other WTO member governments. And therefore, in the years immediately following WTO entry, what we see is the central government engaging in a legislative overhaul to strengthen market institutions in China. So numerous laws were reformed, over 20,000 technical standards reviewed, to bring China into conformity with WTO rules. A national campaign was launched, both publicly and within the government, to raise WTO awareness, both within the national bureaucracy and with the public at large. Now, that's the central government. The responses by sub-national governments, however, were starkly different, as I'll show you in two figures. Provincial governments responded to WTO entry by strengthening their developmental language. So market-enhancing policies, trying to shape market outcomes. Local governments strengthened their directive policies, market-substituting policies, to directly intervene in the functioning of their local economies. Why was this the case? This was the case, I argue, because sub-national governments are, on the one hand, shielded from direct accountability to the WTO. So the city of Ningbo, for example, if it enacts a WTO-inconsistent policy, it's not going to be held directly accountable to the WTO in Geneva. On the other hand, sub-national leaders are directly exposed to the economic effects of WTO-led competition, which directly and intensely affects their promotion prospects. So those who found that they could compete to expand their exports, such as Anhui province, could be seen issuing industrial policies during this period to spur provincial exports in strategic industries, such as auto manufacturing. Those were not as competitive as many of China's smaller prefectures and rural inland regions, but didn't have as rich of an industrial mix, instead resorted to directive policies to forcibly restructure their industries, and consolidate and eliminate inefficient firms. Therefore, what we see is that there was no monolithic response to WTO entry. And while WTO entry triggered initial sweeping efforts to institute market-enhancing policies, these were by and large led by the central government. Sub-national

governments adopted contradictory strategies leading to this internal divergence in China's WTO policy trajectories. Now, the next chapter of the book is going to turn to politics within China's powerful central state to explain the rise of what's come to be called "Chinese state capitalism." So while the central government, as I've just described, responded to WTO entry with this initial surge of market-enhancing reform, this momentum soon lost steam. Instead, analysts started to point to this phenomenon of , or "the state advances while the private sector retreats," as central policies began to take on more developmental tones. So this chapter really asks this question of, what explains the shift and the timing of this shift in central government trajectories? Now here, the dominant explanations that one tends to see regarding this question are, first, that it's the 2008 global financial crisis that sparked China's turn towards developmental statism, or secondly, that it was the Hu-Wen leadership that had more state preferences than their predecessors. And then there's... In the book, I discuss why both of these explanations are inadequate. As I'll show shortly, the turn toward state capitalism preceded the financial crisis, and explanations focused on leadership preferences assume that China's central bureaucracy always acts as faithful agents of the leadership, and tends to overemphasize the ideological differences between these two sets of leaders. And more importantly, can't explain the exact timing of the shift. Instead, I argue that the shift towards state capitalism was driven by a combination of domestic and international factors. So domestically, one has to consider the accountability relationships between the party leadership, on the one hand, and the central government, on the other, because this affects whether or not the leadership was able to discipline the bureaucracy and deploy the central government as a faithful agent. Internationally, one has to consider the degree to which a reform minded agencies within Beijing could use WTO rules as external leverage to gain influence in their internal, bureaucratic politics, over industrial policy agencies who were opposed to liberalization. And what I find is that during the Jiang Zemin-Zhu Rongji era, the leadership could effectively discipline its central bureaucracy. And this was in part because their support networks, of Jiang and Zhu, were located outside of Beijing, in places such as Shanghai, so leaders could discipline central officials without hurting, simultaneously, members of their own network. As such, the Jiang Zemin-Zhu Rongji years were marked by many reforms that were directly opposed to central bureaucratic interests, and they were able to do this in a number of ways. So one example was Zhu Rongji's campaign to reform China's ailing state owned enterprises, which led to this massive consolidation, and a fall in the number of SOEs in the economy. Another example was the 1998 administrative restructuring, wherein Zhu Rongji halved the number of civil servants in Beijing and cut the number of central ministries from 40 down to 29. And the third example, of course, would be WTO entry itself, which was met with really fierce resistance by a central bureaucracy that was wary of the negative impact of external competition, as well as wary of the

external scrutiny that they would now be having to deal with over China's domestic policies. Now, at the same time, the initial post-WTO entry years in China were marked by really strong external leverage. In fact, it was this external leverage that enabled Zhu Rongji to push for WTO entry in the first place, because Zhu Rongji, his own domestic support for liberalization during the negotiation years, was actually quite weak. And China had also, in addition to that, committed to a clear timetable, in its Protocol of Accession, for implementing many of its WTO commitments. China's external trading partners had pushed for this timetable. So after WTO accession, technocratic agencies within China that supported WTO entry could use the timetable as leverage to keep the reform efforts going. And this was very much aided by the status of international law in China's legal system, wherein international commitments have the standing of domestic laws. And this is very different from other countries, like the United States, where the system here is that international commitments first have to be supported by the enactment of additional domestic laws in order to have any force. So these were the two factors driving the surge of liberalizing reforms that we saw earlier by the central government. Now, what changed? As the years passed, both party-state accountability and WTO leverage started to shift. The Hu Jintao-Wen Jiabao leadership that took over from Jiang Zemin and Zhu Rongji were different, in that their ability to discipline the central bureaucracy was relatively weak. Instead, Hu and Wen had to rely on the central state as a key political constituency. And this was particularly true for Wen, who spent much of his career rising up through the central bureaucracy. As a result, the Hu and Wen years were marked by a reliance on the state, rather than disciplining the state, and they were marked by an expansion of the Beijing bureaucracy's influence over economic policies. We can see this in Wen Jiabao's failed attempts to restructure the central bureaucracy. In 2003, early reports were that several ministries would be eliminated, but in the end, only one ministry was cut. In 2008, plans to create an energy super ministry were derailed due to domestic opposition. What we see instead during the Hu-Wen years is the rise of really powerful agencies, such as the National Development and Reform Commission, the Ministry of Industry and Information Technology, and SASAC, overseeing state-owned enterprise's assets. What happened at the same time as this shift in party-state accountability was that the strength of WTO leverage also started to decline, particularly after 2005, as many of the commitments in China's Accession Protocol were met and were, by and large, fulfilled, which led to a loss of momentum within the bureaucracy. And instead, China's international obligations started to be ignored. The many commitments that China signed on to in its Protocol of Accession also generated a lot of resentment within the bureaucracy, leading to an accumulation over time of opposition to reform. For example, China's chief negotiator, Long Yongtu, was even accused of being a traitor who had sold out his country. And these forces meant that industrial policy agencies, rather than the technocratic regulatory agencies, gained influence over the direction

of China's economic governance. This figure, that I'll show you right now, shows the number of industrial regulations issued by China's industrial policy agencies, and China's state council over time. So we can see that from around 2005 onwards, there's a dramatic increase in policy activism by the NBRC, that was also called China's mini state council around that time, because it was so influential. And the big surge in policies by the Ministry of Industry and Information Technology after the 2008 administrative restructuring that created that agency. So the age of industrial policy and the age of state capitalism in China can really be seen here. So what was happening during this period of a surge in industrial policies? A number of really important policy changes were happening. These included the 2006 11th five-year plan, which focused on indigenous innovation that privileged Chinese firms over foreign firms. The medium to long-term plan that advocated reducing China's reliance on foreign technology, announcements reinforcing the role of SOEs in China's core and pillar industries, as well as regulations giving procurement priority to Chinese-made indigenous innovation products. Now, many of these policies, as they became enacted, had a real impact on the ground and they were met with negative reactions by foreign businesses who were based in China. The impacts can be clearly seen in this graph that I'm showing you here that shows the change in business sentiments in the American Chamber of Commerce's annual survey of its firms in China. And we see, in this figure, is that in the initial years after WTO entry, a very large majority of firms actually say that they have benefited, either to a great extent or to a very great extent, from China's economic reforms. This number falls dramatically from around 2005 and 2006, onwards, as these policies come into play. And note that these sentiments are even more negative in 2005 through to 2007, prior to the onset of the global financial crisis, compared to the crisis years themselves. So counter to popular perceptions, the rise of Chinese state capitalism really pre-dated the 2008 financial crisis, but what the crisis did do was to deepen and further entrench the shift that was already occurring within Beijing towards a developmental form of statism. And more importantly, this change in trajectory wasn't necessarily the result of a coordinated China Inc master plan, but the product of a shift, first, domestically, in party-state accountability relations, and externally, in the loss of WTO leverage that affected the distribution of power within China's central bureaucracy. Now, what then were the implications for Chinese industrial policy now that China has shifted to this period of state capitalism? The final empirical chapter of the book turns to look at China's quest for national champions, so it's key industrial policies in strategic sectors. Now, as China's central government turned towards state capitalism, one might think that that really would have brought about a period of greater coherence to industrial policy, particularly in China's strategic sectors. Did that really occur? The book argues that rather than disciplining the stage, what WTO liberalization did was actually generate greater policy conflict between the central and sub-national states. And that this conflict

was specifically widened through a foreign direct investment channel, or an FDI channel, as foreign capital surged into China with its entry into the WTO. And why is this important? It's important because while both central and sub-national governments seek to attract FDI, each deploys FDI towards a different political purpose, and this is going to lead to policy conflict. So the two key factors that matter here are, firstly, what the goal of FDI is, whether it's to maximize capital or to maximize access to technology, because FDI often comprises both things. And secondly, whether it is the central or sub-national government who holds contracting authority for that foreign capital. Now, the goal of FDI matters because growth is a political target, and it serves different political purposes for different actors within the state. For the central government, the central government seeks economic growth for regime promotion purposes. WTO entry therefore represented an opportunity to strengthen the Chinese regime by accessing foreign technology. Sub-national leaders, in contrast, seek economic growth for rank promotion to advance up the hierarchy of the Communist Party state. So for them, WTO entry represents an opportunity for political advancement by drawing in foreign capital to spur growth in their jurisdiction. Therefore, it matters whether the contracting authority for FDI is centralized or delegated to sub-national governments, because that affects whether it's the technology component or the capital component of FDI that's being privileged in any given strategic industry. Now, in the book, I explore the effects of FDI in two case studies, comparing the automotive sector with the semiconductor industry. In the automotive sector, FDI was relatively more centralized with foreign investment controlled by joint venture rules fairly consistently from the 1980s onwards. In the semiconductor sector, in contrast, the FDI policy had a lot more swings over time. And I'll elaborate in this talk, just a little bit, on the semiconductor case study, looking at semiconductor industrial policy. So FDI policy for semiconductors initially, in the 1980s, were fairly similar to that for the automotive sector with joint venture rules in place, and foreign partnerships closely controlled by the central government. In the 2000s, a new policy was issued that greatly de-centralized the FDI contracting authority down to the localities. The joint venture rule was lifted, and this led to a real surge in foreign investment. This FDI, however, was largely focused on assembly and testing. It had very little R&D content, very little higher value added content. And this type of investment was really useful in serving the short-term output-maximizing, rank-promotion goals of many sub-national governments, but did not quite go very far in the technology upgrading, regime-promotion goals of the central government. And in fact, the Chinese firms located in places with heavy FDI presence found it very difficult to break into these foreign enclaves. Innovation was actually weaker in places with stronger FDI presence. And so, the central government responded, in the 2010s onwards, with a reassertion of central control, setting up a central investment fund, and issuing new policies to support Chinese semiconductor firms. And this meant that foreign firms found that

increasingly, in order to survive in this new policy environment, they needed to partner with Chinese firms. And that effectively meant a swing back to the joint venture models of the 1980s. So in short, globalization ended up weakening, rather than strengthening, Chinese industrial policy. WTO entry gave sub-national governments greater access to foreign capital, and giving them therefore resources to bypass central industrial policies that were emphasizing qualitative upgrading rather than quantitative growth. Globalization therefore supercharges the tensions that have complicated the central government's relationship with its sub-national units for a very long time. And Beijing's high-tech ambitions have, in fact, been hobbled by the sub-national governments' quantitative, rather than qualitative, approach to growth. So to round out, I hope that the findings that are presented today allows us to revisit this new conventional wisdom that has coalesced around China's relationship with the global trading system. Rather than asserting that the WTO has failed to alter China's economic model, I hope to have shown you that different parts of China's vast state apparatus in fact responded very differently to WTO entry. Much liberalization was pushed forward by the central government, but sub-national governments adopted divergent trajectories. And to the fears that China has been building this state capitalist model, I hope to have persuaded you that this turn towards state capitalism was not the product of a coordinated, China Inc strategy, rather it was the product of domestic and international politics. So domestically, it was the Hu-Wen Administration, who had a different accountability relationship with its central bureaucracy, giving central agencies far greater influence in policymaking compared to previous periods. Internationally, the amount of external leverage to be used by technocratic regulatory agencies really declined over time, allowing greater space for industrial policy agencies to assert themselves. Finally, to the charge that China's state capitalist model is being exported globally through state owned champions, I suggest that globalization has, in fact, supercharged China's fragmented politics, weakening the overall coherence of industrial policy. So to conclude, while China is indeed an authoritarian one-party state, its engagement with the international economy is far from monolithic. Instead, there's active contestation and competition within China between these different modes of economic governance. And rather than constraining or disciplining the state, what WTO entry did was to alter the distribution of power within China's fragmented authoritarian system, triggering responses that diverged not just over space, but also across time and across industries. Narratives that frame China's WTO experience in terms of simple success versus failure not only cannot capture these really varied internal effects, they also don't allow us to learn about why liberalizing reform was stronger in some parts of the state than others, and stronger in some periods compared to others. So thank you very much. My publisher would like me to show you this book and to let you know that it's currently on sale online, both on the Cornell website, on Amazon, and other places. So thank you so much for your patience in listening to this

talk, and I'm looking forward to a great discussion. Thanks so much.

- Great, thank you, Yeling. And I think I should also mention, is this the last book that's in the Katzenstein series or is that...

- It's not the last, I think there are a few coming after mine.

- But this longstanding series in Cornell Political Economy, edited by Peter Katzenstein, has been a huge resource to our discipline. And so, it's great that the book came out with that series. So I invite the audience to please put your questions in the Q&A. I'm happy to curate them and ask a few at a time. We're going to go until 5:15, we have time, so... So we have plenty of time. But of course, I'm going to take my prerogative, as the convener, to ask a couple of questions. One is fair and the other is not fair. So the fair question I'd like to ask is this; so the middle chunk of the book on the rise of state capitalism, we've talked about this before and I find myself agreeing that this 2008 juncture argument doesn't seem quite right in a number of arenas, but I wonder if I could push you a little bit about description versus explanation, right? So we do see the establishment of various ministries, MIIT being a major one of them, which you talk about, that are trying to move China, I think we can say, in this developmental statism, a move China beyond a low value add position in the value chain to doing something more technological. And so, I wonder if the establishment of these central agencies is a symptom or a cause of that, right? And so, another version, a perhaps more Chinese version of the story, is "We're happy to liberalize, "but it turns out that liberalizing "to globalization, "and to these dis-aggregated supply chains doesn't "necessarily add a lot of value "to economic upgrading for countries. "And it was our responsibility to see how it worked. "We saw how it worked for a few years "and we realized that we needed "to do more to encourage innovation." And so, the turn came from that way. So I guess the reason why I'm asking is you have this story, which I think we all need to hear, that it's not some intentional, premeditated plan to trick everyone into letting them into the WTO and they never had any intention of reforming, but it seems like the argument you're making is that, they really did. People at the top, especially Jiang Zemin and Zhu Rongji, really did have the intention that China would honor its commitments to the WTO and liberalize its economy, but it failed, basically. Those reformers failed to achieve those reforms because of domestic politics and declining leverage because of the timing and structure of WTO Accession criteria. So an alternative version would be, they did, but then they changed their minds. They saw, that it wasn't working. And so, in fact, it wasn't a hapless central government, but rather a program to reverse some of China's occupation of these low value add industries. So that's my, I think, fair question. And my unfair question is the obvious one, which is to ask you to talk a little bit more about the present moment. So clearly, you're dating the turn to state capitalism in the Hu-Wen era, whereas most people... And again,

I agree with you here, but most people think that it's all about Xi Jinping, it's all about his personal views. And I'll remind everyone, and see what you make of it, that, in 2013, you know, the language both in Shanghai and Beijing, and the hopes in the Chinese business community, and the foreign business community, was, "Here comes Mr. Xi and he's a reformer. "Markets should be the decisive force "in allocating resources." And the view was that the anti-corruption campaign was undertaken with the goal of busting up these vested interests to facilitate further liberalization. And then, of course, we get the opposite of that, which is... And so now, for all of your emphasis on China's fragmented policy, etc, what we see now, or at least what we think we see, is this massive centralization of power. And so, I wonder if you could say a little bit, and I say its unfair 'cause I'm asking you to speculate or generalize beyond the time scope of your work. Why did Xi make that turn, if indeed? Was he serious in the beginning about markets and about liberalization? And second, are you describing a time period that is now historical? Are we in fact seeing a much less fragmented state in China than we've seen in the last 20 years? So thank you.

- Great. Fascinating questions. This is awesome. Thank you so much. This is really, really thought provoking. So first, to the fair question, right? I really liked this alternative explanation that you're putting forward, right? That maybe it's more of a learning process, right? That because Chinese leaders found that liberalization actually just trapped Chinese firms into these low value added segments, and therefore they needed to step up their own industrial policies. I'm not sure I'm fully on board with that alternative explanation for a couple of reasons. So first, if it was that industrial policy was what would allow China's leaders to push their industries towards higher value added segments of the supply chain, but they've been trying industrial policies since the... I mean, since the Mao period, but in more modern forms since the 1980s, right? And those industrial policies didn't quite work. In fact, in industries where China was able to assert stronger control over industrial policy, in the auto sector, there was a lot of debate in the WTO period over whether or not it was those industrial policies that were holding China back. That the joint venture model, in fact, was a failure because this joint venture models was so profitable for China's central SOEs that were partnered with the foreign firms, They were producing higher quality cars that were selling like hotcakes in the domestic market. There was very little technology transfer within the joint venture, but the SOEs didn't mind because they were expanding, they were making profits. So there was no incentive... In sectors that remained relatively more sheltered with industrial policy, there was no incentive for these firms to really go up the value added chain. So I would think that evidence can push us back against this learning alternative hypothesis. Also, during the same time, which industries and which firms are becoming more successful? It's the private ones, right? It's the private ones that are able to

be less constrained by industrial policy because industrial policy privileges the SOEs with cheaper credit and more subsidies, and it's the private firms that have to work in a far harsher environment, right? They only get the subsidies after they've succeeded, right? So , for example, right, was started privately, and gets lots of subsidies today because it's a really successful private firm, but it was... It was firms that weren't the target of industrial policy that were more successful, and were able to move up the higher value added chain. So that's where I would kind of push back against that potential alternative explanation. To the unfair question, but also really fascinating question, about Xi Jinping. So first, did he change his mind about reform and liberalization? Secondly, is China a less fragmented system today? And so, what we're talking about in this book really describes the past and less so, the future. So I think it'll take some time for us to figure out what exactly was going on in 2013. People were really excited about the phrase that the market would be the decisive force, but let's not forget that around that same time, there was contradictory language coming out from the Xi administration already about core and pillar sectors, and that SOEs would remain the core. And in a sense, this contradiction repeats contradictions that were in place, that were announced in previous rounds of policy in previous sessions, major sessions, where China put forward its economic policies. On the one hand, markets are important. On the other hand, SOEs are also important. We've seen that happen repeatedly in Chinese economic history. So in a sense, what we saw, the contradictions in 2013, were kind of the same. And my hunch would be that that reflects differences within the party over the next steps and over which direction to go. And we've seen, over the past eight years or so, the direction that Xi Jinping's Administration has gone in. I would actually kind of push back against the notion that there has been no reform under the Xi period. I think the challenge comes in trying to reconcile two different meanings of reform. In the Chinese context, within China, what Chinese policy makers think of when they talk about reform; And then outside of China, what policymakers in, say the United States, think of when they talk about reform. In the United States, reform for China tends to mean market liberalization, greater market forces and so on, within China. I think within the Chinese context, when Chinese policymakers talk about reform, some of them think that... They think that market liberalization is important. In the Xi period, I think that the types of reform that have happened have been in terms of strengthening control over the economy, strengthening control over what they perceive to be an increasingly wild, opaque, uncontrollable economy, and firms whose assets and whose activities around the world were becoming less and less discernible to the central government, and they were getting worried about that. So a greater assertion of control and a greater assertion of discipline over the economy as a whole. That is perceived also as reform in the Chinese context. And that's not necessarily... It's not necessarily fair to say that no reform has happened, and I think it depends on which perspective--

- There's a difference between reform and liberalization, perhaps.

- Perhaps, right. Yeah, and the interesting thing about the Zhu Rongji period, that he's seen as a liberalizer, but he was also a leader who focused on establishing central control in market-enhancing ways. "Let's tame inflation, "let's get the tax system under control, "let's get the central banking system under control" and so on. So this period of centralization, in a sense, precedes the Xi Jinping period. And if we look at the most recent administrative restructuring in 2018 under the Xi period, what happened was actually, interestingly enough, the consolidation of regulatory authority over a number of market regulation functions that previously were really weak because they had been across different central ministries. So in terms of anti-competition and standards, governance, and so on, these have all been consolidated into this new agency called the "State Administration for Market Regulation," if I'm not wrong. So that would also be seen as a way... The Xi administration cleaning up and strengthening their ability to regulate the market which, in their perspective, would be reform. So to the question of, "Is China less fragmented today under Xi "because he's been such a centralizing figure?" I mean, I would caution against throwing out everything that we've learned and all the knowledge that's been accumulated over many, many decades of what we know about Chinese politics. I think that there's a lot that translates to today as well. I have a paper that was published in the China Journal, with my coauthor, Kyle Jaros, looking at provincial governments in the Xi Jinping period. And what we argue is that power doesn't necessarily flow in a zero sum way in China. Just because more power's at the top doesn't mean that less power necessarily... That power has been taken away at the bottom. And in fact, the consolidation of power upwards has empowered provincial authorities and their ability to be gatekeepers, because resources still have to be channeled downwards, and provincial authorities have become more influential players in gate keeping, in channeling preferential resources to one sector over another, to one district over another. Provincial authorities play a really, really important role in China's Belt and Road Initiative. And so, if we look at the Belt and Road, what we see is fragmented authoritarian politics all over the shop because Xi Jinping has put forward the central government campaign. Who implements the campaign? it's the sub-national governments. And are they going to implement the campaign as laid out in the central government's policies? No, they're going to use the central government policies in ways that will advance their own localized initiative. So I think that fragmented politics persist in Xi Jinping's China very much, in ways that are described in the book. What might be different is that we live in a world now of, I would say, low external leverage when it comes to things like multilateral trade rules, because the WTO reform agenda has stagnated. The Doha Round has failed. WTO reform is just stuck because the United States government is not making it a priority at the moment. And even, the US, and the EU, and Japan have

contradictory objectives, and don't quite agree on really core issues at the WTO. So in terms of the ability of reformers within China to repeat the WTO playbook, that does not quite translate. And that, I think is a really important difference between what the book covers and the dynamics today. In the dynamics today, it's not so much about multilateral rules, it's this coercive external environment. It's the age of the trade war and the technology war, and so on.

- That's a perfect entree into the next question. We're getting quite a few, so I'm going to ask two at a time. But first, I think it's appropriate to ask, from Professor Christina Davis in the government department, I know she's known to you, and she asked this question, "What makes international leverage strong or weak, and how did it vary over your period of analysis?" And so, she says, "Some would argue that the decline of US influence and credibility after 2008 financial crisis, deadlock or failure of the Doha Round, and unfair protection against China all reduced the legitimacy of WTO pressure." But she asks, you just concluded that we're not in a moment of international leverage, but she wonders, "Would either the trade war today or negotiations to enter the CPTPP in the future provide enough international leverage to encourage reforms in China similar to what the WTO entry brought in 2001?" So I'll ask that one first, and then I'll move on to it to another one, but perfect timing there.

- Great, and hi, Christina. Thanks for attending the talk. This is a great question, and I think gives a lot to think about. Yeah, so, I mean, leverage has obviously ebbed and flowed over different periods of time, as you just mentioned. And we were just talking about in 2006, the Doha Round and the weak external leverage environment because of WTO is stuck in the state it's stuck in. So what about the trade war and what about CPTPP, and how does that translate into domestic politics within China? I think the trade war was really interesting in that it's created dynamics within China that are opposite to the WTO period. In the WTO period, you could have regulatory agencies and reformers, to use that ambiguous word, within China, using WTO rules as external leverage. What is happening with the trade war and these sort of coercive acts, The export restrictions and the tariffs, is that it's empowering the exact opposite set of actors within the Chinese system. It's the hawks who can then point to these tariffs and these external export restrictions to say, "Look, the United States is trying to curb China's rise. In order to respond to this, we need to build up our national security apparatus, we need to build up Chinese self-sufficiency in the economy, we need to double down on industrial policy." And so, what we see is similar dynamics in terms of external rules altering the distribution of power. External actions and policies shifting the distribution of power within the Chinese bureaucracy. Here, it's the hawks and the nationalism in the Chinese bureaucracy who are now empowered, and the reformers, who are fairly marginalized, because for them to speak out in favor of greater external liberalization puts them in a slightly,

politically sensitive position, and they're exposed as, "Are you pro America? "Why aren't you standing up for China?" And so on. And so, what we see in the response from China today is a securitization of the overall economic relationship. CPTPP I think is super interesting and super fascinating, and how we think about it playing out. I think, in two ways. First, why did China apply to join the CPTPP? And secondly, how will the negotiations, and if China succeeds in joining, how will this affect kind of domestic politics and the bureaucratic politics within China? In terms of the CPTPP and how it fits in into China's overall economic plan, I think it's interesting that there are both things that make sense to me and things that don't make sense to me. So if I could just talk it out, and hopefully it'll be interesting to the audience. The CPTPP makes sense to me in that it's really consistent with China's overall approach, and China's been really clear about this, that it's not turning away completely from globalization. It's spectacular growth has been fueled by globalization. It's going to continue engaging with the global economy. China is engaging in an adjustment to that approach, in that it's making moves to make its economy more resilient to external shocks, right? And this has been encapsulated in Xi Jinping's "Dual circulation strategy." And there's been a lot of ink spilled over the internal circulation aspect of that dual circulation policy, and saying, "China's moving to self-reliance" and so on. I think, too often, people fail to note that the external circulation is still an official policy on the part of the Chinese government. And Chinese policymakers have repeatedly emphasized that they're not closing their doors off to globalization, not at all. China, during the trade war period, has signed on to RCEP, it's signed on to an investment agreement with the European Union, it continues to push its Belt and Road Initiative. So the CPTPP falls into that external engagement strategy, and combined with RCEP, membership would really enhance China's economic position in the Asian region. And even when the CPTPP was just the TPP, there was heated debate within China about whether or not this agreement could be used as further leverage to liberalize the economy. And I think, from the few voices that we've seen coming from the Chinese government, many of them retired officials, because current officials who are still active have far less scope to speak out these days, it seems to me that the same dynamic is probably in play, and that there is a subset of people within the bureaucracy who see the CPTPP as potential external leverage. However, it's not going to be a replay of the WTO Accession because the politics around CPTPP are so fraught these days. And this comes to the part that does not quite make sense to me. So China's application for membership has come at a time when China's trade relations with some of the most important CPTPP countries has been heavily politicized, right? With Canada and with Australia. And when your trade relations have been weaponized to this extent, and politicized to this extent, can you get back to engagement and negotiation on commercial terms? I think that's a huge question. The other thing we need to think about is Taiwan's application also to join the mega regional trade agreement, which adds

another political layer to the whole issue. Four of the WTO countries were really careful to schedule China's Accession first in December of 2001, and then Taiwan's Accession next, in January of 2002. Now China, for the CPTPP, has made it really clear that it does not consider Taiwan's WTO accession process as setting any precedent to the Transpacific Partnership, to that mega regional trade agreement. And then there's this really difficult sequencing problem, because if China joins the trade agreement first, it can veto Taiwan's membership. And if Taiwan joins first, it can veto China's application. So this is going to be the subject of extremely tricky and, I think, extremely delicate diplomacy. So I think these geopolitical issues, in terms of trade relations with Australia and the question of Taiwan, really cast a shadow over the CPTPP... China-CPTPP Accession. And then there are other challenges, such as the chapters within the trade agreement on SOEs, on E-commerce, on IP protection. These, I think, are challenging, but not insurmountable, right? If it was insurmountable, China would not have applied to join in the first place. They have been studying the trade agreement for a very long time. And I think that the existing chapters in the CPTPP already provide really important exceptions that China can use to work out how its own economic governance can fit into the trade agreement. It can use exceptions about... Within the data flows agreements... About legitimate public policy objectives, it can say, "Since we're allowed to prohibit data flows across borders when there's a legitimate public policy objective, here's a legitimate public policy objective," right? And use these as escape clauses because what's a legitimate public policy has not been defined in the trade agreement.

- All right, mindful of time, thank you. This is fascinating. I'm gonna ask a couple of smaller questions together. One, from TK Chu, is "Thanks for a thoughtful presentation." And the question is about the efficacy of China's state capitalist system. "So if we compare the USSR pre-1989 central planning economy, the USSR one did not work and the Chinese one has worked," I assume he means in terms of growth and advancement, etc, "So what are the one or several factors that led to this difference? Why has China's state capitalism been successful?" Or central planning, which I don't know if you would call it central planning, but in any case, I'll leave it there. And the second question is from . It's "Thank you so much for your fascinating talk. Could you please explain a little bit more about why you think the Hu-Wen Administration had a weaker accountability relationship with the bureaucracy than the previous administration? So does your book draw on rich text data to explain this comparison?" So I'll leave those there, thanks.

- Great, Thank you. So on this question of efficacy, I would encourage everyone to read Yuen Yuen Ang's two books; First, "How China Escaped The Poverty Trap," and her more recent book on China's gilded age, which is how China managed to grow so successfully, despite having

massive amounts of corruption. And also, Isabella Weber's new book on "How China Escaped Shock Therapy." I think those books really point to the secret sauce, and give us a really clear comparison on China's growth experience and how it was different from that of the Soviet Union. And there's a whole set of literature prior to these books coming out, looking at China's experimental approach to growth. Sebastian Heilmann's work on policy experimentation, economist Ding Yi works on the federalism and so on... Fiscal federalism. So I would point to there's... There's a huge amount of literature talking about why the Soviet Union, or post-Soviet economics in terms of those economies adopting shock therapy that sent those post-communist countries along a certain path. And then China's own communist regime adopted a really different set of approaches when it came to this question of how to grow the economy after Mao Zedong died. As we mentioned a little bit in the talk, they adopted this experimental approach by empowering local governments to look for the best ways to grow. And this came in the form of some policy experiments that were really subversive, like the household responsibility system. But when it was shown that it was really successful, the central government then adopted it and encouraged localities to adopt it. Experiments along the coast, in terms of the special economic zones. When that was shown to be successful, it was expanded along the coast in the 1990s. And then, from there, further expanded when China joined the WTO, trade liberalization and liberal trade rules are applied to the entire economy. So I think this question of why China was more successful in relative terms, there's a rich set of literature to address that. I would caution to say that the system is efficacious at all times and in all segments, because there's also a rich set of literature talking about how China's policies end up being really poorly implemented. "So has China succeeded in spite of its industrial policies or has it succeeded because of its industrial policies?" I think is a real question. And on the second question, I'll speak quickly 'cause I'm worried that we're out of time very soon, on why the Hu-Wen Administration accountability relationship with its central government was weaker. In the book, I draw on a number of different sources. A lot of it has to do with interviews with retired government officials, and as well with public policy managers within firms that have to interface with the government, and them talking about differences between Hu and Wen... between Hu-Wen and Zemin-Zhu. Retired government officials talking about differences and so on, as well as just looking at major events in each set of leaders' administration in terms of, "How well were they able to achieve policy objectives that directly undermined the central government's objectives?" Because in cases where the central government's objectives and the leadership objectives, where those are aligned, you won't get a conflict, so then it's really hard to tease out the accountability relationship. So we need to look for instances where the two are misaligned to be able to identify when it is that the central government is able to discipline the bureaucracy, and use the central government as a faithful agent, or when it has to rely on the government as a key political

constituency. So I look at these key events, right? The 1998 administrative restructuring that Zhu Rongji very effectively did versus the ones in 2008, that Wen Jiabao up I'll try to do and largely failed. SOE reform is another example, and WTO entry is another example. So I hope that answers your question.

- Perfectly on time, how elegant. So, I mean, we have more questions, we could keep going on, but we will give Professor Tan, who's based in Oregon now, her afternoon back to work, and we're at the end of our Workday here. But thank you so much for this presentation and for sharing the research with us, and thanks to everyone who was able to attend and ask thoughtful questions, I'll look forward to seeing, hopefully, most of the audience back in early December. But in the meantime, thank you so much, Yeling, for doing that.

- Thank you so much, Megan, and thanks everyone for staying for this talk, and thanks for the great questions. It's been really fun. Thanks so much. Bye.

- Bye.