

BOOK REVIEW ROUNDTABLE

Minxin Pei's

China's Crony Capitalism: The Dynamics of Regime Decay

Cambridge, MA: Harvard University Press, 2016

ISBN: 978-0-6747-3729-7 (cloth)



Yan Sun

David Bachman

Nicholas Calcina Howson

Minxin Pei

A Partial View of China's Governance Trajectory

Nicholas Calcina Howson

Minxin Pei's new book *China's Crony Capitalism: The Dynamics of Regime Decay* recites in detail the morass of corruption and collusion in which the People's Republic of China (PRC) party-state finds itself. Encyclopedic in scope, the book addresses corruption, extraction, and network formation in many of modern China's formal settings—including in the Chinese Communist Party (CCP), the *nomenklatura* system, state institutions, enterprises, the investment sector, and the real property market, among others—but also in nonformal contexts such as the rise of the “local mafia state.” The book's basic storyline is this: the PRC's radical devolution of intertwined political power and governance authority over productive assets in the early 1990s, matched with the accelerating creation of property rights, delivered on the party's mission to lift China out of poverty and create sustained economic development. It did so, however, at the cost of generating uniquely harmful incentive structures and resulting extractive and efficiency-defeating behavior that has contributed to regime decay and the frustration of any future advance to democratic and rule-of-law governance structures.

Passionate as the book is, there are aspects that detract significantly from its power and coherence. This review identifies three of those aspects: the data under examination, the theoretical framework, and the extended concluding argument of the book.

The first aspect is the data employed and how it is used. Pei's study is largely based on 260 cases of party discipline (and rarely criminal

NICHOLAS CALCINA HOWSON is a Professor of Law at the University of Michigan Law School. He can be reached at <nhowson@umich.edu>.

prosecution) culled from the state media over several decades—ranging from semi-autonomous sources like *Caixin* to party-state propaganda organs such as the *People's Daily* and Xinhua. The limited data set employed in the book and its origins have at least three implications. First, the substance of the book is largely determined by data originating from central-level propaganda and thus only rarely captures central-level party-state misdeeds. This would not be a negative if the data could be controlled for the fact that it is rife with often unproven (and some, in my knowledge, untrue) allegations deemed essential to a propaganda campaign or political attack. Second, there is a concern as to how representative these cases are of the different contexts prevailing in China today and over a period of more than three decades. Third, while Pei cautions readers that the data he invokes is not representative, he nonetheless draws rather robust conclusions based on such data. One example can be seen in chapter 3:

Even though the fifty cases...in the sample were not randomly chosen, they provide useful clues for understanding how this form of collusion [*maiguan maiguan*] is carried out. Geographically, the fifty cases are drawn from twenty-two provinces, indicating the prevalence of this practice. Nine cases are from Anhui, a poor province with a high incidence of *maiguan maiguan*, at least according to press reports. Henan, a relatively poor agrarian province, and Guangdong, the booming manufacturing powerhouse, have five cases each. Hainan and Shandong have three cases each. *As the sample includes both poor and prosperous regions, it appears that this practice exists in regions at all levels of economic development*, although, without more data, it is impossible to determine its exact distribution (pp. 80–81, emphasis added).

In essence, this passage states that because the limited sample of 50 cases includes an equal number of 5 cases from poor Henan Province and rich Guangdong Province, “it appears that this practice exists in regions at all levels of economic development.” Or does the caveat in the final clause deny that? This conclusion touches on a key question for development scholars—the relationship between economic development and governance—but is rendered on data that social scientists may find problematic for the reasons discussed above.

While I appreciate the attempt to theorize the phenomenon of collusive capitalism, the book’s second shortcoming concerns some of the assumptions supporting its theoretical analysis. For instance, Pei points out repeatedly that crony capitalism was not observed in China until the 1990s. This is true, but that is because the “capitalism” side of crony capitalism did not exist in China before that time. “Cronyism” instead occurred then in

the embrace of a centrally planned, state-controlled economy. This telling, therefore, confuses an *ex post* development (reform and opening to the outside world) for something in the long-term *status quo ante* (elite collusion and cronyism) stretching back through the entirety of the CCP party-state and indeed Chinese history.

A second example is the frequent connection Pei makes between “authoritarian” governance and crony capitalism, overcorrelating two independent variables. In fact, the book refutes any asserted link between an authoritarian regime and the rise of cronyism. As stated throughout the book, the move that enabled cronyism in reform-era China is the early 1990s devolution of political and economic power away from the center of authoritarian rule and the resulting dilution and fragmentation of national, or unitary, authoritarian governance. This is precisely the reason the PRC’s current administrative “center” is now so intent on recovering aspects of authoritarian rule.

Third, Pei’s theoretical framework does not give adequate consideration to alternative ways in which the political, economic, and societal mechanisms he describes might work. For example, chapter 2, “The Soil of Crony Capitalism,” outlines the party nomenklatura system of personnel appointments and correctly notes how it tracks onto board and senior executive positions at corporatized state-owned enterprises (SOE). Pei’s conclusions about this phenomenon fail to take account of an alternative story: how the nomenklatura infiltration of enterprise appointments might make the people in these jobs more accountable than they were historically as managers of SOEs, given that financial performance, personal civil or criminal penalties, or other failures (e.g., a declining stock price) will directly hamper their advancement inside the party. As a final example, when Pei theorizes the origins of the PRC’s crony capitalism, he identifies as critical a “lack of clarity” or “vagueness” of underlying property rights, by which he means the separation of formal “ownership” from use, profit-share, and disposition of nonresidual use rights (see, for example, pp. 180–82). Few observers, I think, would agree that there is a lack of clarity with respect to the residual ownership rights retained by the party-state with respect to any of the situations that the book invokes. Instead, the abiding issue in China today is about the “contest” over those well-understood rights.

The last of the book’s limitations I focus on here is in the extended argument that surfaces in the conclusion as follows: The PRC’s program of reform and opening to the outside world in the 1980s, the creation and distribution of property rights in the 1980s and 1990s, and the subsequent

devolution of party-state power and control of state assets in the 1990s and early 2000s allowed China to experience unprecedented growth while simultaneously creating sufficient conditions for the descent into crony capitalism; that crony capitalism has permanently undermined the party-state's legitimacy and effectiveness and thus contributed to the terminal decay of the CCP regime; the party's decline can only be reversed by the introduction of democratic accountability and the rule of law; and yet crony capitalism itself creates a strong path dependency that will frustrate any attempt to advance political reform or allow the CCP regime to save itself.

First, a threshold problem in this concluding argument is that the book's analysis is directed toward an end state called "democracy." Instead of setting up crony capitalism as a serious obstacle to good governance, it makes the easier move of positioning crony capitalism as a block to democracy and Western-style rule of law. Democracy could alternatively be seen as one means to a distinct end: legitimate and accountable state governance and sustainable economic growth, all delivered with a minimum of cronyism.

Second, as with every other state managing the transition from a state-owned, centrally planned economy to a market economy built around the exchange of property rights, the always-fraught step in this process is the distribution of newly created property rights into the hands of those who will wield those rights. There is no nation in history that has accomplished the creation and distribution of property rights into a developing market without initially putting them predominantly into the hands of, or having those rights opportunistically seized by, incumbent insiders, state officials, oligarchs, and so forth, especially when political reform is not enacted simultaneously. This distribution of, and contest over, newly crafted property rights is the *sine qua non* of creating even a semi-market-based economic system, given the structure out of which the PRC and developmentally similar states seek to transition. The only other available mechanism for the PRC was shock privatization, with the immediate distribution of all property rights and assets into non-party-state hands. That process for the PRC almost certainly would have created even more intense dysfunction, criminality, and ultimately political instability.

Third, concomitant processes over the past 30 years might be understood as a remedy for the unilateral descent to regime collapse. These include, among others, what the PRC calls "legal system construction," a socialist-sounding term for the creation of substantive law and regulation and the governance institutions necessary for implementation and enforcement of those new state norms. One view of development is that over time, and even without

basic political system change, the increased viability of and traction gained by these legal and governance institutions will temper and mostly defeat the phase of unbridled cronyism, which as I note above is a necessary, if ugly, initial stage for the creation and distribution of property rights under law, leading eventually to the establishment of commodity markets and long-term development. The failure to acknowledge these mutually interacting processes is a significant problem for the book, for *China's Crony Capitalism* does not look beyond the abundant indicia of cronyism or consider the reality of concomitant institutional development. True evaluation of the existence of the alternative development path that I suggest is underway in the PRC today requires serious inquiry into how the PRC's legal and regulatory system and associated governance institutions work, and how they work differently over time and in radically different environments in China. If Pei does see this other part of the PRC's development narrative, he seems to be arguing that it is not sufficient to arrest regime decay, and that true development with continued regime legitimacy requires the accountability promised only by a mix of democracy and rule of law.¹

¹ For an important analysis of how China's economic growth both prods and results from observable institutional change, thus providing concrete indicia not just of regime decay but also of enhanced regime legitimacy, see Yuen Ang, *How China Escaped the Poverty Trap* (Ithaca: Cornell University Press, 2016).
