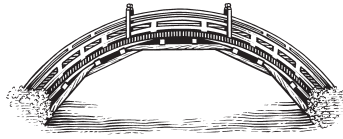


BOOK REVIEWS



How Development Economics Can Become 70% More Effective

Robert H. Wade

A review of

Terutomo Ozawa

The Rise of Asia: The “Flying-Geese” Theory of Tandem Growth and Regional Agglomeration

Cheltenham: Edward Elgar, 2009. ≈ 256 pp.

For the past two decades the mainstream of the subfield of development economics in the West has been dominated by micro studies in the belief that the top priority is to achieve “rigorous” knowledge about whatever lends itself to being rigorously studied. Before that, from the 1940s through the 1970s, development economists debated big issues of development strategy under headings such as “big push industrialization,” “import substitution,” “balanced growth,” “agriculture versus industry,” and “urban bias.” Nowadays, in contrast, journals are full of partial equilibrium studies of data sets but are thin on studies of big macro questions, especially of long-run development. The situation is reminiscent of economics before 1936, when economists had elaborate theories for explaining the price of a cup of tea but next to nothing plausible for explaining persistent mass unemployment, and could explain why the bishop was paid more than the garbage collector only in terms of “labour market distortions.”

When development economists today do tackle big issues of strategy, they tend to prescribe free markets, capital accumulation, and a policy tilt toward export promotion as the keys to rapid economic growth—with an implicit assumption that developing and transitional states are all in the mould of Nigeria and not to be trusted to do virtually anything right. Beyond the distinction between “developing and transitional” and “developed,” there is scarcely any analysis of stages of economic transformation.

In this context Terutomo Ozawa’s new book, *The Rise of Asia*, is a blast of fresh air. Ozawa starts with the pioneering work of Kaname Akamatsu in the 1930s, who coined the term the “flying-geese” pattern of industrial development. Akamatsu used the metaphor of overlapping V formations of geese to refer to the pattern of quantities of imports, production, and exports

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(MPX) in the building of any one industry over time (such as spinning and weaving machinery, electrical machinery, bicycles, and ethylene). This is the intra-industry flying-geese pattern within any one country. Akamatsu also identified an inter-country flying geese pattern between countries in a regional hierarchy, such that as any one industry becomes uncompetitive in one country (perhaps due to rising wages) it moves down the V formation of countries to follower countries with lower wages.

Ozawa builds on these ideas and applies them to the period since World War II. Whereas Akamatsu (and just about all of those who used his ideas) pictured Japan as the leader of an Asian hierarchy, Ozawa says this is deeply misleading: the United States was the lead goose and Japan was the lead follower in the 1950s. Without the United States in front, importing huge volumes of consumer goods and then capital goods (and able to run increasing current account deficits thanks to the United States' ability to export its own currency in order to finance imports), there would have been no flying-geese formation in East Asia. From the 1940s to the 1980s and 1990s a fairly linear process of "comparative advantage recycling" operated, in which lower value-added industries moved from one tier of economies to the next (and the leading economies then imported from the newer sites, adding a new imports curve at the end of the standard intra-industry MPX formation). Hence, there existed the following hierarchy: United States > Japan > South Korea/Taiwan/Singapore > ASEAN-4 > China and Vietnam. Since the 1990s, however, the simple flying-geese model has broken down as China has surpassed the ASEAN countries in many industries.

Also, since the 1980s and 1990s the value chain for many types of products has become geographically dispersed. Instead of whole industries moving down the country hierarchy to lower wage sites, only the low value-added parts of the value chain move down (such as the production of certain components), while the high value-added parts (such as R&D and marketing) stay at home. Thus, any one middle-wage economy might be moving its center of gravity in a staged sequence across industrial sectors, while at the same time moving niches within increasingly vertically disintegrated production chains, jumping far ahead in the sectoral stages or sometimes jumping backward in the sectoral stages but to higher value-added niches.

Ozawa is emphatic about the advantages of a flying-geese regional formation, or what he calls "tandem growth." The importance of regions is caught in econometric studies of national economic growth, which typically show that "regional dummies" pertaining to characteristics of the region in which the national economy is located provide a sizable part of the total

explanation. This point is made metaphorically by the finding that a gaggle of 25 geese flying in V formation achieves a 70% energy savings over a solo bird thanks to the aerodynamic effects of flying together. The advantages of the flying-geese formation were brought home to me in tangible form during my field work in Taiwan in 1982 and 1988. I met several Japanese quality-control experts who became freelance consultants on weekends and advised Taiwanese firms (some competing with the same Japanese firms for whom the consultants worked) on how to improve the quality of their products.

Turning from the production or real economy to the financial or money economy (or from the current account to the financial account), Ozawa proposes an innovative stages theory of the balance of payments, linked to the stages of the production economy. He then proceeds to analyze the pros and cons of “borrowed growth” (that is, growth financed by foreign borrowing), and from there to an analysis of “global imbalances.” The book, moreover, not only analyzes big trends and big policy issues but does so in remarkably lucid and graceful prose, accessible to undergraduates and the general reader.

For the future, the demand side needs more attention. In many economies, rich and poor, we see a tendency for wages to increase more slowly than productivity growth. This trend limits domestic demand and concentrates income and wealth at the top, distorting the economy by the efforts of the wealth-holders to find ways to store their wealth (in natural resources, complex financial products, overseas bank accounts, political patronage). Offsetting this tendency provides a rationale for a Rooseveltian (not a Washington) Consensus for measures such as a legal minimum wage, cash transfers to the poor, and guaranteed public sector employment at the minimum wage.

The second big hole is the implications of the stages argument for international regimes in trade and finance. For example, the intense investments needed to build up the heavy and chemical industries stage are likely to require heavy external borrowing. But borrowing on the relatively short terms obtainable from private capital markets is dangerous (Exhibit A: the East Asian/Brazilian/Russian crisis of 1997–98). This provides a rationale for an expansion of long-term (twenty years or more) lenders such as the World Bank and regional development banks by ten times their current rates of lending and for a relative fall in private capital flows. How would the group of seven (G-7) states like that idea? How would the BRIC countries (Brazil, Russia, India, and China) like it?

Two other recent books or papers can be cited alongside Ozawa’s as expanding the frontiers of development economics in a broadly similar direction. First, there is Justin Lin’s recent paper, “New Structural Economics:

A Framework for Rethinking Development.”¹ The particular significance of this paper is that Lin is not just a marginal academic; he is chief economist of the World Bank, the first non-G-7 national to hold this key ideas-controlling position in the World Bank. The second example is the distinguished Brazilian economist Luiz Carlos Bresser Pereira’s book *Globalization and Competition: Why Some Emerging Countries Succeed While Others Fall Behind*.² Add in work by Yilmaz Akyuz, Alice Amsden, Nancy Birdsall, Ha-Joon Chang, Heiner Flassbeck, Michael Lipton, Gabriel Palma, Carlota Perez, Erik Reinert, Dani Rodrik, and Beverley Silver, among others, and one has an early-stage real ferment in development economics—which should make for at least a 70% energy savings of those taking part. ◆

¹ Justin Yifu Lin, “New Structural Economics: A Framework for Rethinking Development,” World Bank, Policy Research Working Paper, no. 5197, World Bank, February 2010.

² Luiz Carlos Bresser Pereira, *Globalization and Competition: Why Some Emerging Countries Succeed While Others Fall Behind* (Cambridge: Cambridge University Press, 2010).

Frictions and Outcomes between the State and Civil Society in Locating “Public Bads”

Mike Danaher

A review of

Daniel P. Aldrich

Site Fights: Divisive Facilities and Civil Society in Japan and the West

Ithaca: Cornell University Press, 2008 ≈ 254 pp.

In *Site Fights*, Daniel Aldrich investigates how the governments of Japan, France, and the United States decide where to locate the necessary evils of airports, dams, and nuclear power plants as well as how leaders respond to an increasingly more questionable public opposition to these sitings. The focus is mainly on Japan, with selective comparisons with France and the United States. The time period is the 1950s onward. Aldrich argues that state agencies initially manage potential conflicts by avoiding contestation wherever possible. He states that authorities place facilities where organized resistance from groups is judged to be lowest. This book charts the decisionmaking processes from a historical perspective and finds that authorities are facing rising opposition from citizens, who are more educated and environmentally and globally conscious.

The research uncovered in this book is a culmination of Aldrich’s scholarship on Japan, France, and political science. Japanese and French language sources make up a substantial part of his research and add to the depth of analysis. General findings across the three countries reveal that a strong civil society pushes states to develop more sustainable strategies for handling divisive problems, whereas a weak civil society allows states to continue using hard social control methods and coercion, such as land expropriation and making NGO registration difficult. In other words, the characteristics of civil society, whether strong or weak, play a highly significant role in the choice of government strategies and where projects are ultimately located.

Aldrich drills down among the toolkits that governments use in order to find out what determines their choice of tools from a considerable number of variations in types of government responses, the choice of which is not

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easy to explain. He claims tool choices, more than anything else, depend on the strength of contentious political opponents within civil society over time. Governments have at their disposal many and varied tools that can be broadly divided into hard forms of social control, such as expropriation and police suppression, and soft forms, such as grants and educational programs.

Aldrich has compiled a comprehensive data set to test his arguments. His research is carefully designed to compare apples with apples by selecting hundreds of cases. The focus of analysis is the interaction between government and citizenry, which essentially is where this study differs from others. His methodology, which addresses a large number of cases across three countries, is refreshing and opens up the topic to greater scrutiny while providing interesting insight into many conflicts. The book examines a range of variations in government responses to citizen opposition cross-nationally, cross-temporally, and across same-nation cases. These cases inform Aldrich's hypothesis that the strength of civil society to oppose controversial sitings determines how states will react.

The historical context provided offers insights into the various levels and motivations of civil protests, as well as focusing on more determined government authorities. For example, the Narita airport extensions during the late 1960s corresponded with Vietnam War dissent and left-wing student activities. Yet protests, though highly militant and violent, remained unsuccessful. Protestors thought Narita would be used by U.S. combat and troop planes fighting in Vietnam in the same way that the Haneda airport was being used. Learning from the Narita case, the state has employed soft social control methods for future airport sitings. Moreover, in recent times airports were built on man-made islands in Japan in order to minimize public backlash. Similarly, the oil shocks of 1973–74 made governments more determined to shield their nations from future global events by speeding up construction of nuclear power plants, and therefore energy independence, if possible. This certainly applied to Japan and France, which have low reserves of oil and coal.

The book shows that ordinary Japanese people are concerned about the environmental and personal health risks of these facilities but that this varies depending on the type of “public bad.” Japanese and U.S. opposition to dams has only been low to moderate. In Japan, where dams are used to produce hydropower and for flood mitigation, the general population has been convinced of the need for them, with opposition remaining mainly localized to the towns that are flooded. In contrast, French opposition to dams has been much stronger. Anti-dam opponents in France were able to ally with

the Greens and Socialists and force the French state into adopting soft social control tools and incentives. Over time, however, Japanese opposition to dams has grown, forcing the state to also implement new soft social-control strategies such as dam tours and educational programs aimed at making children and women more accepting of dams. Aldrich found that in the case of siting dams in Japan, the size of the locality and the time period in which the dam is proposed best explain which locality will be chosen. Larger towns with more unused land, smaller population density, and lower land prices are more likely to be selected than smaller towns.

Japanese civil society has been most opposed to the siting of nuclear power plants in the earthquake-prone country. Despite the public's distaste for nuclear weapons after Hiroshima and Nagasaki, Japanese governments have proceeded to build many nuclear power plants. In order to do so, however, they have needed to implement many social control instruments and build plants mostly in remote coastal towns away from strong opposition. The practice of expelling wastewater at higher temperatures into the ocean has also alarmed fishermen, while Japanese farmers have objected to nuclear power plants encroaching on their farmland. It is these two citizen groups (fishermen and farmers) who most oppose nuclear power plant sitings. Likewise, in the United States, opposition to nuclear power plants is currently strong.

The chapter on French nuclear power plant siting is titled "David versus Goliath," which alludes to the generally weak and marginalized groups (David) within French civil society. Though there was localized opposition to nuclear power plants in the 1970s when the government announced that France would go "all nuclear," public opinion generally favored nuclear energy. Consequently, the French state has continued relying on coercion to achieve further nuclear power plant sitings and at the same time encountered anti-nuclear groups tending toward violence and sabotage.

In terms of my own field of Japanese environmental politics, I find this book useful in regard to the conceptual frameworks that Aldrich has put forward to explain the strengths of opponents vis-à-vis state responses. For example, he concludes that the larger the social capital in a community and the better its networks, the greater the chance of a strong citizen opposition. This framework can be applied to the study of environmental NGOs working in Japan that have for a long time faced stiff bureaucratic barriers.

The book would have benefited from the inclusion of maps highlighting the location of the more controversial sitings of major dams and nuclear power plants. In summary, however, this is a well-argued book that provides interesting detail on the siting of public bads in Japan, France, and the United

States. Aldrich concludes with an important recommendation: rather than focus on strategies of social control, government agencies should involve citizens directly in the decisionmaking process, and thus improve policies for siting controversial facilities. In this way, governments may avoid negative feedback later on that could hurt them in elections. This is a good book for the professional library of any Japan specialist. ◆

Rethinking China's Strategy in Asia and Beyond: Can We All Get It Right?

Andrew Scobell

A review of

Gilbert Rozman

Chinese Strategic Thought toward Asia

New York: Palgrave Macmillan, 2010. ~ 272 pp.

As Steven Levine astutely observed back in 1984, the People's Republic of China (PRC) was "a regional power without a regional policy."¹ Indeed, China was without an Asia strategy until the end of the Cold War. While a number of books have examined the rise of China in the Asian context or looked at Beijing's relations with its neighbors, until now there has not been a study focused on how China thinks about Asia. Gilbert Rozman's book *Chinese Strategic Thought toward Asia* is, therefore, an important book.

Strategy is probably the most overused and least defined word in the lexicon of the U.S. national security community. The closest Rozman comes to clarifying what he means by the term "strategic thought" appears well into the volume when he says he is referring to "ideas...[about the] means to realize ends" (p. 68). What Rozman seems to mean by the term is what is widely known as "grand strategy" (pp. 2, 3). In essence, the book is a thoughtful and comprehensive overview of big-picture thinking about Asia in post-Mao China.

There is probably no scholar better equipped to tackle this topic. Rozman has written extensively on Chinese analyses of the countries on China's periphery and those states' analyses of China. The result is a *tour de force* treatment organized chronologically and geographically with a stand-alone overview introductory chapter. The first part consists of four chapters that divide Chinese thinking into four periods. Chapter 2 examines the decade of the 1980s, chapters 3 and 4 survey the 1990s, and chapter 5 explores the 2000s. The latter part of the book examines Chinese thinking toward Asian countries or subregions. There are separate chapters on Japan and Korea, Russia shares

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¹ Steven I. Levine, "China in Asia: The PRC as a Regional Power," in *China's Foreign Relations in the 1980s*, ed. Harry Harding (Yale University Press, 1984), 107.

a chapter with Central Asia, and South Asia is included in a chapter with Southeast Asia.

What is China's strategy? According to Rozman, it is "establishing itself, in stages, as the 'central state' of Asia" (p. 5). How is Beijing seeking to achieve this objective? According to Rozman, Beijing is pursuing this by "boosting comprehensive national power" and "limiting the influence of rival contenders" (p. 5). In pursuing the latter goal, the United States of course looms largest for China. But other powers also figure in China's geostrategic calculus: Russia, Japan, and India, to name the most prominent.

Most analysts conclude that reform-era China is extremely pragmatic, having thrown off its Maoist-era ideological shackles. Moreover, it is widely assumed that China has strategic thinking down to a fine art—after all, the country has a grand tradition of strategic thinkers dating back thousands of years to Sun Zi. More recent luminaries include Mao Zedong and Deng Xiaoping. Rozman challenges these conventional wisdoms and argues that, in fact, many contemporary Chinese thinkers tend to be ideologically hidebound. He identifies two main schools of thought—a "peace and development" school and a "reunification and anti-hegemony" school. Rozman attributes the persistence of ideology to the enduring strength of the latter school, and sees many of the inconsistencies and contradictions in Beijing's strategies and policies as the result of an ongoing "clash between the two schools" (p. 28). Despite China's insistence that the country has adopted a "new security concept" that seeks "win-win" solutions with other countries, many in Beijing continue to view the world from a *realpolitik* perspective. Contrary to the "harmonious world" mantra, most Chinese elites view the globe as a very dangerous and threatening place. They perceive other capitals as threats to Beijing, and if other states are seen as winning, China is considered to be losing.

As Rozman observes, one cannot simply take the rhetoric of official Chinese pronouncements at face value. For example, China's repeated condemnations of a lingering U.S. "Cold War mentality" and a Washington that engages in "hegemony and power politics" may reveal more about Beijing's strategic mind-set than about Washington's world-view—what Rozman labels the "remnants of ideological fetters and oversensitivity to foreign behavior" (p. 42). Indeed, he views China as "the most ideological of the East Asian states apart from North Korea" (p. 39). Rozman perceptively observes that China "stridently faults others for persistent Cold War logic when it is one of the most guilty for sustained balance-of-power reasoning and opposition to universal values" (p. 223).

Moreover, the author contends that China is not flawless when it comes to formulating and implementing grand strategy and is not terribly good at matching rhetoric with reality. Chinese elites have demonstrated at least three deficiencies: an incomplete strategic vision, rigid systems and processes, and a reactive tendency. First, according to Rozman, there is “no apparent, overall Chinese strategic vision” and “no clear blueprint for a new regional order” (pp. 34, 5). Although Chinese leaders have been quite skillful at managing their country’s “reform and opening” policy, the general guidelines have tended to be extremely vague with no clear endpoint specified. A popular metaphor used to characterize the country’s reform roadmap seems to underscore this point: “crossing the river by feeling the stones.” Second, the Chinese political system, strategic thinking, and policy process all exhibit considerable “rigidity” (p. 42). This characteristic—which includes the “ideological fetters” noted above—is self-limiting and produces a Beijing that is slow to act. Third, and relatedly, Chinese elites demonstrate a reluctance to take initiative and are largely reactive when formulating and implementing grand strategy. Indeed, according to Rozman, it is “U.S. global leadership that drives China’s response” (p. 36).

Rozman urges us to “peer behind the set expressions, making sense of the inconsistencies in Chinese writings and statements for different audiences” (p. 40). Great attention to details and nuances allows Rozman to identify and explain the “duality that frequently exists between the upbeat assessments of China’s continuous gains in the international system and the harsh warnings about the negative designs of other states” (p. 4).

Take, for example, Chinese rhetoric about multipolarity and multilateralism. While Beijing has for many years proclaimed its desire for a multipolar world, the PRC’s actions and reactions to the turbulence of the post-Cold War era have demonstrated a profound reluctance and even resistance to initiatives in the direction of multipolarity. For example, China is unwilling to champion reform of the UN Security Council. When Brazil, Germany, India, and Japan banded together to lobby for permanent seats, China only provided tepid rhetorical support. While the world may have remained unipolar since the collapse of the Soviet Union, during the past two decades Asia has witnessed the rise of multipolarity. Chinese recognition of the importance of Asia has translated into a significant expansion of bilateral relations and a branching out into multilateral activism. And yet while China now vigorously engages with every country in Asia, it does so as the dominant player because of its massive size and vast economic clout rather than on the basis of any abiding commitment to multipolarity or multilateralism.

What would be incontrovertible evidence of a wholehearted Chinese embrace of multipolarity and regionalism? As Rozman notes, indicators would include “doing away with the term ‘hegemonism’ [as a euphemism for U.S. policy]....acknowledging the rise of Japan as a great power...[and] upgrading India’s status as a rising power” (p. 239).

China has been thinking strategically about Asia for the past two decades, and scholars, analysts, and decisionmakers ignore the discourse in China over its neighborhood at their peril. Rozman’s book fills a serious void. This volume should be required reading for anyone interested in understanding how Beijing sees its home region and China’s place in it. ◆

Will China Eat Our Lunch?

Richard P. Appelbaum

A review of

Denis Fred Simon and Cong Cao

China's Emerging Technological Edge: Assessing the Role of High-End Talent

New York: Cambridge University Press, 2009. ≈ 434 pp.

Will China eat our lunch? Short answer: probably yes, but possibly no. China is moving in the right direction, but before betting the house that China will be the world's next technology superpower, it might be wise to hedge a little—just in case.

China's Emerging Technological Edge is an impressive book, authored by two leading experts on the subject. Denis Fred Simon, director of Penn State's Program in U.S.-China Technology, Economic, and Business Relations, has been studying China's transition to capitalism since Mao Zedong's denunciation of Deng Xiaoping and his capitalist roaders. Simon is fluent in Mandarin, and for the past quarter-century has been a matchmaker between foreign investors and Chinese officials. Cong Cao, Simon's long-time collaborator, is senior research associate at the State University of New York's Neil D. Levin Graduate Institute of International Relations and Commerce and the author of *China's Scientific Elite*, a study of the membership of the Chinese Academy of Sciences.

In 2006, China launched its fifteen-year "Medium- and Long-Term Plan for the Development of Science and Technology" (MLP), officially seeking to "leapfrog development" by investing heavily in research and development, higher education, science parks, and supportive infrastructure.¹ With the MLP—and related policies, including the eleventh and twelfth five-year plans—China has sought to move away "from foreign 'show-how'... to capturing foreign know-how to advance its economy and technological capabilities" (p. 20). This is far easier said than done. The book's generally optimistic prognosis regarding China's high tech future is balanced by its hard-nosed historical analysis, which acknowledges the numerous challenges

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¹ See, for example, Richard P. Appelbaum and Rachel A. Parker, "China's Bid to Become a Global Nanotech Leader: Advancing Nanotechnology through State-Led Programs and International Collaborations," *Science and Public Policy* 35, no. 5 (June 2008): 320.

posed by China's past, particularly the "ten lost years" (1966–76) of the Cultural Revolution that resulted in the virtual elimination of the generation that would comprise China's senior innovators today.

Yet, as the book documents—through a detailed analysis of Chinese government statistics (summarized in more than 70 tables and figures),² interviews, and secondary sources—China is moving mountains to compensate for past sins. Deng reasserted the importance of education, and under Hu Jintao and Wen Jiabao, merit-based higher education has now assumed center stage. China's overarching goal today is to redirect its science and technology policy from merely being "master imitator" to becoming an indigenous innovator (*zizhu chuangxin*), backed up with substantial public investment aimed at "rejuvenating the nation with science" (*kejiao*) and "empowering the nation through talent" (*rencai qianqquo*) (pp. 42, 333).

Yet beyond the promise and the hype,³ as Simon and Cao show, there are many obstacles for China to overcome.

China's Emerging Technological Edge begins by laying out a theoretical foundation for its basic assumption: that investment in human resources in science and technology can pay economic dividends since science and technology talent "can effectively raise the growth rate in leaders as well as followers in economic development by way of technological innovation" (p. 9). Simon and Cao argue that this is especially important for countries such as China that hope to play catch-up by drawing on a "global talent pool" of "trans-border innovation networks" (p. 15). Much of the book is devoted to elaborating on the promises of that emerging talent pool, as well as its many limitations.

In 2006 (the most recent year for which most statistics were available when the book went to press) China turned out some 3.7 million undergraduates, of which half specialized in science, engineering, agriculture, and medicine. China also produced 256,000 graduate degrees, including roughly 36,000 at

² The authors are well aware of the limitations of official Chinese statistics and devote a lengthy, detailed appendix to the topic.

³ Hype surrounding China abounds. As early as 2006, Demos—a British think-tank that monitors China—declared that "China in 2007 is the world's largest technocracy: a country ruled by scientists and engineers who believe in the power of new technologies to deliver social and economic progress." *Forbes Magazine* in 2009 announced that "China has fully arrived as a superpower," while Nobel Prize-winning economist Robert Fogel predicted in a 2010 *Foreign Policy* article "that the Chinese economy will reach US\$120 trillion by 2040, accounting for 40% of the world's GDP, with a per capita income of \$85,000—more than double that predicted for the EU." See James Wilson and James Keeley, *China: The Next Science Superpower?* (London: Demos, 2007), 6; Shaun Rein, "Yes, China Has Fully Arrived as a Superpower," *Forbes*, December 15, 2009; and Robert Fogel, "\$123,000,000,000,000: China's Estimated Economy by the Year 2040. Be Warned," *Foreign Policy* (January/February 2010).

the doctoral level, more than half of which were in engineering and science (p. 157). Yet despite its expanded investment in higher education and the resulting “marked improvements, especially at key institutions...there is no doubt that the quantitative increase in China’s higher education system in recent years has occurred at the expense of necessary quality improvements” (pp. 158–59). Even though China graduated an increasing number of students, there remained a quantity-quality gap resulting from weak faculty, poor curricula, lack of flexibility, and inadequate attention to problem-solving (p. 164). The Chinese government currently spends less than 3% on higher education, “among the lowest in the world” (p. 36). Higher education is no longer free, which has limited access, while recent reforms have stratified the higher education system. “Key” (*zhongdian*) institutions receive the lion’s share of public support, “thus ignoring the need for broader-quality improvements throughout Chinese universities as a whole” (p. 36). The net result is that

while a select number of Chinese scientists at leading institutions have done cutting-edge work at the frontiers of international research, much of the work coming out of Chinese laboratories and research institutes still tends to be not yet close to the cutting edge or to be derivative of what has been done elsewhere, with minor new contributions. (p. 103)

Thus, despite recent efforts to upgrade education and training, China continues to face a “talent challenge,” a shortage in the science and technology pipeline that could prove to be a significant damper on further economic growth. The Cultural Revolution decimated a generation of talent, effectively restricting higher education to poorly qualified “worker-peasant-soldier students” (*gongnongbing xueyuan*) admitted on the basis of class background rather than academic qualifications.⁴ China’s aging population (the unintended consequence of its one-child policy) has also contributed to the problem, given that fewer young people will be entering college in the coming years (p. 339).

One of the big question marks about the future of Chinese science and technology thus concerns “brain drain, brain gain, and brain circulation”—the title of chapter 6 and a principle preoccupation of much of the book. According to Chinese government statistics, 1.2 million Chinese left the country to study or conduct research abroad (“brain drain”) between 1978

⁴ A small number of talented individuals did manage to leave China and obtain a foreign education, to later return as leaders in science technology. One example mentioned, Bai Chunli, left China for a postdoctoral fellowship at the California Institute of Technology, subsequently worked at the Jet Propulsion Laboratory (JPL), and eventually returned to China to lead the country’s current nanotechnology efforts (p. 30).

and 2007, of which only a quarter have returned (“brain gain”). While China’s economic resurgence has attracted a growing number of returnees, the number remains small and generally fails to include the best and the brightest, many of whom have secure positions abroad and are waiting to see whether China’s recently adopted reforms in education and intellectual property (IP) protection will result in significant changes in practice. China’s leadership is well aware of these problems; it is attempting to lure the best back with pricey start-up packages, has strengthened IP and patent protections, and has created a number of government programs that nurture talent with fellowships. Additionally, the large number of Chinese living and doing research abroad (“brain circulation”) are “a significant asset both strategically and practically, especially in terms of transfer of knowledge, the attraction of foreign capital for high-technology endeavors, and local entrepreneurship” (p. 244). Some are “migratory birds” (*houniao*) who have summer positions in China, some are “amphibians” (*liangqi*) who have appointments in both Chinese and foreign institutions, and some merely collaborate with Chinese colleagues on specific research projects. Importantly, an increasing (although frequently exaggerated) number of foreign multinationals have also relocated their R&D operations to China, not for low wages or access to Chinese markets as in the past, but rather for access to Chinese brain power.⁵

Simon and Cao’s conclusions are cautiously hopeful regarding China’s ability to achieve its high-tech ambitions. Although “China is poised to become a significant contender, and an important contributor, to the frontiers of international research activity and high technology development...the reality is that the Chinese situation is still a work in progress in terms of overall output and innovative potential” (pp. 108–9).⁶ Yet “the present set of shortcomings, which frequently have made talent issues into a serious liability, are now being addressed in a concerted, coherent fashion...the issue is not *if* talent will become a source of competitive advantage, but only *when*

⁵ One recent well-publicized example is Applied Materials—the world’s largest supplier of solar-manufacturing equipment—which in December 2009 announced plans to open an R&D center in Xian. Mark Pinto, the company’s chief technology officer, will relocate from Silicon Valley to China. As Pinto explained, “We’re doing R&D in China because they’re becoming a big market whose needs are different from those in the U.S...energy will become the biggest business for the company...[China] will be the biggest solar market in the world.” See Katherine Bourzak, “Applied Materials Moves Solar Expertise to China,” *Technology Review*, December 22, 2009.

⁶ As Xie Sishen, head of China’s National Center for Nanoscience and Technology, stated in 2007 with respect to nanotechnology, “as a whole, China is in the rear of the first echelon or the front of the second echelon, ranking 5th or 6th in the world in nanotech. More but few: more SCI papers but few higher-citation papers; more original ideas but few original achievements; more patents but less tech transfer; more purchased advanced instruments, few indigenously made.” Richard P. Appelbaum and Rachel A. Parker, “China’s Developmental State,” in *Global Network*, ed. Khalid Nadvi (forthcoming 2011).

and under *what* conditions it will reach this stage” (p. 345). With regard to the latter, China primarily needs to complete its science and technology reforms, developing a truly achievement-based system that rewards scientific excellence rather than personal connections. Or, stated more bluntly, “there is still too much ‘socialism’ left in the Chinese research system” (p. 346).

On balance, despite all the caveats that would seem to work against its “emerging technological edge,” China appears to be advancing fairly well in its journey down the capitalist road. Perhaps all hedging of bets should be off. ◆

University Autonomy and the State: The Official Story

Yi Shang

A review of

Su-Yan Pan

University Autonomy, the State, and Social Change in China

Hong Kong: Hong Kong University Press, 2009. ≈ 264 pp.

Su-Yan Pan's *University Autonomy, the State, and Social Change in China* offers a historical analysis of power relations between institutions of higher education and the government in China through a case study. Case studies can be extremely illuminating for complex and multifaceted issues, provided that they are approached meticulously. While Pan's book is ambitious in its scope, many relevant details are left unexplored and its methodology suffers from a serious flaw.

The third chapter of the book gives a historical overview of the social changes and changes in higher education in China from the 1840s to the early 21st century. The entire time period is divided into four parts, each one with a clear theme. For example, the Mao period (1949–76) is marked by tight governmental control of the universities, and, as a result, Pan argues that “Chinese higher education emphasized scientific, technical and intellectual competence and gave priority to the ‘correctness’ of political ideology” (p. 54). The later age of reform and opening-up (after 1977) saw “a gradual liberalization in state-university relations” (p. 63).

History, however, often defies attempts at such neat classification. The Mao period of rigid control of higher education was punctuated by consequential episodes of total anarchy. A well-known example is the “one-hundred-day militant struggle” on the campus of Tsinghua University starting in May 1968, when two factions of students used explosives, hand grenades, and other self-engineered weapons to attack each other without any intervention from the school administration or the government.¹ The reform period after 1977 has not been one of continuous liberalization either. As early as 1980, university students in several big cities in China had waged independent campaigns for seats as deputies in local congresses, thus testing the limits of the government.

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¹ Ruhuai Shen, *Qing-hua da-xue wen-ge ji-shi* [A Narrative of the Cultural Revolution at Tsinghua University] (Hong Kong: Shi-dai Yi-shu Press, 2004).

Such bold attempts were not possible in the 1990s and later. Throughout the 1980s, students held massive rallies across the country demanding democracy and better living conditions for intellectuals. The last such rally, the 1989 pro-democracy movement, ended abruptly with the June 4 massacre.² By the early 21st century, state control of higher education remained decisive, as exemplified by the radical expansion of admission in nearly all colleges and universities across the country. This policy has been enforced by the state since 1998 and has seriously strained instructional resources at many schools. None of these events is mentioned in Pan's study, except for the 1989 pro-democracy movement, which is mentioned only briefly without any discussion. These events, besides being important historically, are not at all marginal to the titular theme of the book: university autonomy and the relation of the university with the state. For example, the contrast between the vibrant scene of student- and professor-led organizations and rallies in the 1980s and the tightly controlled campus atmosphere of the 1990s may be symptomatic of a tightening of government control over university life and administration, an aberrant current in the general trend of social liberalization. Similarly, the bargaining, or lack of it, between universities and the government concerning such a vital problem as expansion of admission could be very illuminating for the issue of university autonomy. Unfortunately, the omission of these events from the historical overview foreshadow the more serious lapses later in the book.

Chapters 4–8 study the evolution of a particular institution, Tsinghua University (TU), focusing on the ever-changing relationship between the school and the state. It is an excellent pick considering that TU has undergone an intriguing metamorphosis in the past century—from a school originally funded and influenced by the U.S. government to one of the Chinese universities that is most closely intertwined with the technocratic upper echelon of the Chinese Communist Party (CCP). In fact, three of the nine members of the current standing committee of the politburo are TU alumni. Yet again, however, some of the most important issues concerning this transition are not addressed by Pan's research.

The 1952 reorganization of higher education under the CCP's leadership was perhaps one of the most profound events in the history of Chinese higher education. Universities were chopped up and merged according to the government's plan of creating more specialized technical colleges and reducing the number of comprehensive universities. TU lost its colleges of

² Jonathan D. Spence, *The Search for Modern China* (New York: W. W. Norton & Company, 1999), 682–704.

arts, sciences, and law, as well as most of its research institutes, and absorbed the engineering departments from other prestigious schools. The product of this transformation has since become the “cradle of red engineers.” In addition to the reorganization, the school’s governing regime was put under thorough Communist control and the old professor-dominated system of committees was abolished. It is hard to imagine that such a process could go smoothly without huge external pressure. How exactly did TU, a proud institution that had managed to remain relatively autonomous through colonization, war, and previous dictatorship, lose its battle this time? And what impact does this event have on TU’s later development and current relationship with the government? The book does not pursue these questions. It is simply stated that faculties showed disapproval, but the reorganization went ahead because it was against the law to disobey the government and also because TU had a “sense of responsibility for serving national development” (p. 105). Such a discussion of this important topic is neither informative nor convincing. The reorganization of the university and the establishment of party committee rule of the university administration were not only pivotal events in TU history but also effected dramatic reconfiguration of the relations between the university and the state. The rather cursory treatment of these events, which have left such a profound imprint on the institution, character, and autonomy of TU, is unfortunately symptomatic of a deeper methodological problem with the book.

The 1952 reorganization is one of the many significant historical events at TU that are not explored seriously or even mentioned in the book, which to a large degree conforms to the school’s “official” history. These omissions are a direct consequence of the book’s methodology, which is described in the appendix. The author’s field work, combining observations and interviews, lasted two months altogether. A total of 40 people were interviewed including 31 staff members and 9 students. Most of the staff members interviewed were senior administrators, such as vice presidents, deans, and department chairs. For example, the interviewee who said that TU accepted reorganization in 1952 due to its sense of responsibility in serving the nation was the director of the Office of History. This official is the only interviewee cited in Pan’s discussion of the event. Pan emphasizes that she intentionally approached high officials for interviews because she believed that their positions reflect their seniority in and knowledge of the institution. This assumption shows a curious naiveté concerning the standards according to which the CCP promotes its officials within any institution. Moreover, the author seems to be unconcerned with the possibility that the positions of the interviewees

are strongly correlated with their levels of self-censorship when talking to an outside researcher about TU and the government. One inevitably must rely heavily on documents published within China when researching a topic like TU. Nevertheless, the researcher must be aware that academic freedom has not exactly flourished in the country and that literature reviews, therefore, need to be supplemented with solid field work that includes a balanced sample, which is missing in Pan's book. It is especially important to interview people who no longer hold a stake in the institution, such as alumni, retired teachers, and retired staff members, because they may provide a different and perhaps more objective perspective on the university's autonomy, the relationship between the university administration and the government, and the relationship between the university administration and the students.

The book's most informative and interesting discussion occurs in chapter 8. Pan charts the development of political education at TU after 1977 and touches on the dilemma of the school's attempt to balance one government demand, acquiring international status, with another demand, tightening control over students and staff. The difference between the Chinese and English content of TU's website is one of the most interesting observations made by the author. The book ends with a discussion of the theoretical implications of this case study. Pan uses the case of TU to refute the theories of modernization and dependency and to supplement theories of globalization. Her analysis of the interactions between forces of globalization, domestic control, and the university's autonomy is thought-provoking.

At the end of the day, all the discussions about the administrative autonomy of the university only touch the surface of a deeper question. Does not the vast body of students and faculty members, rather than administrators, constitute the functional core of a vibrant university? If so, what autonomy and restrictions do they have in their own studies and research? How does the government's interaction with university administrators, the focus of the book, trickle down and affect the daily lives of students and faculty, and what have they done, and what do they hope to do, in response? These fundamental questions lie beyond the scope of Pan's ambitious attempt to study the administrative autonomy of universities in China. One can hope that a future study, with more care in methodology, will begin to address these questions. ◆

Crossing the International Relations–Comparative Politics Divide in Analyzing Cross-Strait Relations

Douglas Fuller

A review of

Scott L. Kastner

Political Conflict and Economic Interdependence Across the Taiwan Strait and Beyond
Palo Alto: Stanford University Press, 2009. ≈ 256 pp.

Scott Kastner's book *Political Conflict and Economic Interdependence Across the Taiwan Strait and Beyond* flips on its head the question of whether international economic integration restrains conflict by asking whether conflict will restrain economic integration. The book proceeds to unpack the issue by focusing on the factors that will lessen the negative effects of political conflict on economic integration. Kastner argues cogently that the Taiwan-China case is worthwhile to study in-depth not only because it is geopolitically important but also because the severe political conflict across the Taiwan Strait makes economic integration especially unlikely. Economic integration across the strait should be low and yet it has flourished. Through a detailed account of the politics of cross-strait economic integration as well as an examination of other dyadic conflicts, the book examines the hypothesis that leaders' accountability to internationally oriented economic interests will mitigate the negative effects of international conflict on economic integration. This approach combines new theoretical insights with a careful inspection of the evolution of the cross-strait political and economic relationship. In short, this is an excellent piece of scholarship.

This work offers several important theoretical insights. First, international economic interests tend to weaken the negative effects of conflict in the Taiwan Strait and other dyadic conflicts. However, the Taiwan-China relationship also critically depends on the positive security externalities for China—in other words, trade with China arguably helps with China's political goal of reunification. In China, there is a political coalition of internationalist economic interests and nationalist statist interests. Second, the book revisits the debate about whether economic integration leads to peace and argues that the assertion that economic interdependence makes democracies more

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peaceful because the political influence of economic interests is magnified in these states may need to be qualified. Harkening back to Edward Mansfield and Jack Snyder,¹ Kastner proposes that the newness of Taiwan's democracy may make it more susceptible to nationalist appeals. However, he also suggests that the very nature of the bilateral dispute is important. If the disputed issue is one about which the citizens of a democracy care deeply, then they will be more willing to ignore the restraining effects of economic ties. Indeed, they may push their leaders to take a very hard political stand on the bilateral issue. The Taiwanese do not pay as much attention to their deep economic integration as one might expect precisely because they care deeply about Taiwan's territorial sovereignty—that is, for Taiwanese voters, China's threat to Taiwan's sovereignty may trump its allure as a big market for Taiwanese goods. Of course, the relatively weak institutions of Taiwan's new democracy may combine with the importance that Taiwanese place on *de facto* independence to bolster the anti-China nationalist position in Taiwan, as perhaps has been the case under the presidencies of Lee Teng-hui and Chen Shui-bian.

Several of the book's strengths merit discussion in some detail. For scholarship addressing issues in international political economy, the book paid very close attention to the domestic politics of interest articulation. For example, Kastner did not stop at delineating Taiwan's parties and their evolving stances toward economic integration with China. He burrowed into the intra-party factional politics of the Democratic Progressive Party (DPP) to pinpoint how evolving positions, particularly for the highly ideological New Tide faction, influenced the decisionmaking of President Chen. Another strength is the author's extremely careful and judicious weighing of the theoretical implications of the empirical evidence. Kastner's analysis of the treatment of pro-independence "green" Taiwanese businesses in China in order to try to distinguish between internationalist economic and nationalist revanchist interests as the driver of China's policy toward Taiwan is excellent. The more negative treatment of these green businesses suggests nationalism as the motivating factor; at the same time, the fact that the negative treatment was limited to a few firms, mainly Hsu Wen-Lung's Chi Mei Group, suggests that the nature of security externalities plays a role as well. China reaps positive security externalities from most Taiwanese business activity in China but not from committed green businesses. From these observations, Kastner concludes that the internationalist interests in China do not have to be the

¹ Edward D. Mansfield and Jack Snyder, "Democratization and the Danger of War," *International Security* 20, no.1 (Summer 1995): 5–38.

strongest among contending domestic political forces. They simply must forge an alliance with nationalists instead of the more commonly seen alliance between nationalist and protectionist forces.

Despite this book's superb analysis, its account of the influence of Taiwan's domestic politics on the island's economic policies toward China could be challenged. Although the book presents a plausible case for the evolution of policy under Presidents Lee and Chen due to evolving domestic pressures on these two presidents, an equally plausible argument is that their policies, particularly Chen's, were generally quite consistent. There are several reasons to question Kastner's narrative of bouts of business interest-driven liberalization. First, what appears to be liberalization is perhaps better conceived as greater nominal openness while Taiwan adjusts its investment bans to the ever-advancing technological frontier. For example, Taiwan's openness to investing in 200-millimeter (mm) wafer production semiconductors in China under Chen early in his administration was in reality not much liberalization at all, given that the cutting edge of competition had moved from 200-mm wafer production to 300-mm wafer production. By foot-dragging for so long, the Taiwanese government made sure that cutting-edge technology remained on the banned investment list. Today, Taiwan's government appears to be doing the same thing in negotiating the details of its economic cooperation framework agreement with China by promising to "liberalize" investment in older-generation liquid crystal display (LCD) production.

The other reason for questioning Kastner's narrative of business-driven liberalization is the exaggeration of the powers of business interests generally and at certain key junctures. On the general increase of business interests in Taiwan during democratization, Kastner relies heavily on the analysis of Tse-Kang Leng. Whereas Leng's work captures the methods used by business interests to infiltrate the electoral process, particularly for winning seats in the Legislative Yuan, Kastner's analysis ignores the state bureaucracy. This omission is highly problematic, given that the Legislative Yuan has never been very effective or active in monitoring and managing the economic bureaucracy. Most of the "black gold" political activity in Taiwan has focused on profiting from local procurement and regulatory opportunities rather than on international economic issues. Furthermore, the state bureaucracy's power and legitimacy in economic policymaking is formidable, if somewhat diminished, from past decades. Even today, the Legislative Yuan tends to intervene only at the highest level to approve or block large-budget items—witness, for example, the recent haggling over the ill-fated Taiwan Memory

Company venture. As Kastner mentions, the 2003 economic summit was composed of two-thirds state bureaucrats and administration officials and only one-third business people.

A third reason for questioning the book's narrative is Kastner's broader conception of interest groups. Building on the vast international political economy literature, Kastner looks to see which interests will win as a result of further economic integration with China and labels these internationalist economic interests. This category seems to lump together many different actors with different motivations. Kastner's assumption that various business interests fall into this camp thus may obscure as much as it clarifies. First, many businesses are not interested in China for the Chinese marketplace but as an export platform. This distinction is critical because it suggests that there are alternative strategies to investing in China that could be acceptable both to businesses worried about profits and to politicians and bureaucrats worried about negative security externalities. For example, IT exporters focused on global markets are only committed to pushing for liberalization in China when China is the most competitive export platform for their products, and they would lose their competitive advantage if unable to base production there. IT exporters that can use alternative markets or even remain in Taiwan, by contrast, have a low interest in lobbying the government for further liberalization. Computer assemblers from Taiwan are dependent on China as the best export platform for their products, whereas China has been relatively unappealing and unimportant for semiconductor manufacturers. Thus, semiconductor manufacturers have expended more energy in lobbying to secure government loans for production in Taiwan over the last decade than in pushing for further liberalization. Even during the early Chen administration, manufacturers were internally divided on liberalization.

Another facet of economic interests in Taiwan is the financial ties between big business, which Kastner rightly argues is more likely to lobby effectively, and the state. Taiwan's various state policy banks and funds are still active. Through equity stakes and loans, the state is able to influence certain big businesses. Morris Chang might not have been close to either political party, but he toed the government line on liberalization more so than other CEOs because the Executive Yuan fund held a major stake in his firm.

Having spent too much space critiquing some aspects of Kastner's conceptualization of Taiwan's domestic politics, this reviewer must reiterate the overall excellence of this book. The book bridges the gap between domestic and international politics in theoretically interesting and empirically well-grounded ways. Kastner's ambitious overview of the domestic politics of cross-

strait relations in both China and Taiwan is impressive and informative. The account of China's domestic politics of cross-strait economic integration was particularly persuasive. In sum, this book sets the standard for future work on the critical issue of the politics of cross-strait economic integration. ◆

**Comparative Study of Politics in Pakistan and Bangladesh:
An Insightful Analysis**

Nadeem Malik

A review of

William B. Milam

Bangladesh and Pakistan: Flirting with Failure in South Asia

New York: Columbia University Press, 2009 ≈ 256 pp.

More often than not, the study of South Asia has been compartmentalized into the study of individual countries such as Pakistan, Bangladesh, India, and Sri Lanka. A comparative study of these countries is rare. Also rare is analysis of the future of Muslim-majority countries, such as Bangladesh and Pakistan, that are facing the critical problems of poverty, deteriorating law and order, and security. The latter omission is especially striking in contemporary times given the importance of the spread of Islam in South Asia and its effect throughout the world. This book fills the gap. Issues such as nationalism, military domination, the politics of language, the nature of civil-military relations, and religious extremism are addressed with considerable care and sophistication, particularly with reference to Pakistan and Bangladesh. The book is the outcome of a laborious comparative study of the history and evolution of both countries. One of the book's major strengths is that it offers an enormous amount of secondary data that should prove fruitful for researchers conducting further analysis. Being a seasoned diplomat, William Milam's analysis is based on his personal experience as well as on his observations and deep understanding of historical developments in South Asia. The book is accessible and presents a lively portrait of the structure and agency of politics in Pakistan and Bangladesh.

Various interesting observations are scattered through the book. For example, both countries had initially attempted to establish a government based on democratic principles that upheld the secular approach of their founding father Mohammad Ali Jinnah, and yet later they seemed to adopt the politics of religion based on undemocratic norms. Religion could not hold the two countries together and proved to be the biggest evidence of the weakness of the "two nation" theory, according to which Muslims in the Indian subcontinent demanded a separate homeland on the basis of their

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religion. Also, despite the differences between Pakistan and Bangladesh—the former being a multi-ethnic society and the latter being among the most homogenous developing countries—the feeling of national identity has always been very strong within each. In the case of Pakistan, communalism has been the defining feature of such an identity, whereas in Bangladesh the Awami League upheld a secular view of national identity.

Milam links political Islam with military hegemony in Pakistan and concludes that the character of such hegemony makes prospects for change in the dynamics of political and economic development remote. Moreover, because the nature of the nexus between jihadis and the military is still ambiguous, it is not clear whether the military is truly willing to purge Pakistan of extremist forces. Pakistan's future, therefore, might be dominated by chaos and the further deterioration of law and order. On the contrary, in Bangladesh, where jihadis have yet to find ways to become prominent and the military is relatively less inclined to hang on to power forever, the country's future might be a little different with regard to democratic development.

Though the book provides a comparative history of endogenous factors that led to military domination in Pakistan and Bangladesh, it shies away from analyzing the exogenous factors. Any examination of political developments in South Asia without an adequate study of the role of the international community in shaping the region's political situation remains incomplete. For example, several scholars have noted that in the Cold War period, military build-up in several states in the developing world was an outcome of the U.S. attempt to contain Communism. The United States entered into military alliances with these countries and transferred massive amounts of military hardware to shore up their defense capabilities. Despite major human rights violations in these countries, the United States and its Western allies continued to support military regimes in Asia, Africa, and Latin America. Due to its geopolitical situation vis-à-vis West Asia, Pakistan was considered to be a front-line state in the Cold War. During the Afghan war, Islamic fundamentalism was used as a tool by the Pakistani military elite and its international allies, notably the United States, to fight Soviet intervention and Communism. Before the Afghan war and General Muhammad Zia-ul-Haq's regime in Pakistan, not a single jihadi organization existed in the country.¹

Another important exogenous factor responsible for poor economic performance and military hegemony in countries such as Pakistan and Bangladesh has been international arms transfers. The total volume of

¹ Jalalzai Musa Khan, *The Sunni-Shia Conflict in Pakistan* (Lahore: Book Traders, 1998).

arms transfers to developing countries from 1961 to 1980 was alarming. It amounted to \$134.3 billion (in constant yearly U.S. dollars), whereas during the same period the total volume of economic aid to these countries totaled \$47.8 billion.² During 1981 and 1991, roughly three-quarters of all global arms transfers went to developing countries,³ thereby exacerbating internal political violence. In the case of Pakistan, from 1954 to 1965 the United States gave Pakistan military hardware worth \$1.2 to \$1.5 billion.⁴ In addition, as noted by the Agency of International Development, a large number of officers in the Pakistani armed forces were trained in the United States under the International Military Education and Training (IMET) program with a grant of \$12.2 million during the period from 1953 to 1961.⁵ This further strengthened Pakistan's military. Furthermore, the Muslim League, the leading political party, was already weak, having no roots in the Muslim-majority areas that became Pakistan. The dominance of the military was therefore virtually inevitable. During the 1980s, Pakistan was the third largest recipient of U.S. aid, which was largely military-oriented, and during 1982–90 the Pakistan military received military hardware worth about \$2 billion.⁶ Military aid and arms transfers to Pakistan were thus significantly responsible for the military hegemony that systematically eroded democratic political culture in favor of extremist elements in the country.

In the case of Bangladesh, Talukder Maniruzzaman has eloquently analyzed how arms transfers could lead to military takeover.⁷ According to him, Bangladesh had a small army, which, as rightly mentioned by Milam, was divided between “freedom fighters” and “repatriates” who were stranded in Pakistan and later became part of the Bangladeshi army. Moreover, to harness the influence of armed forces, Sheikh Mujib organized a special security force, the Jatio Rakkhi Bahini (JRB, or National Security Force). The army and the JRB were equipped with ordinary weapons.⁸ The balance between them eventually tilted in favor of the JRB when in 1974, Egyptian president

² Talukder Maniruzzaman, “Arms Transfers, Military Coups, and Military Rule in Developing States,” *Journal of Conflict Resolution* 36, no. 4 (December 1992): 733–55.

³ Shannon Lindsey Blanton, “Instruments of Security or Tools of Repression? Arms Imports and Human Rights Conditions in Developing Countries,” *Journal of Peace Research* 36, no. 2 (March 1999): 233–44.

⁴ Blanton, “Instruments of Security or Tools of Repression?”

⁵ Maniruzzaman, “Arms Transfers, Military Coups, and Military Rule,” 742.

⁶ Ayesha Siddiqa Agha, “Political Economy of National Security,” *Economic and Political Weekly* 37, no. 44/45 (November 2002): 4,545–49.

⁷ Maniruzzaman, “Arms Transfers, Military Coups, and Military Rule,” 745.

⁸ *Ibid.*, 746.

Anwar Sadat offered 30 T-54 Russian tanks to the Bangladeshi army.⁹ Some officers dismissed by Mujib planned a conspiracy and, in connivance with their friends from two battalions (tank and artillery) of the army, carried out a bloody coup and killed Mujib and most members of his family.¹⁰ The two generals, Zia-ur-Rahman and Hossain Mohammad Ershad, who ruled Bangladesh successively during the periods 1975–81 and 1982–90 with an interval of about nine months of civilian rule, endeavored to professionalize the armed forces and increased military budgets. The military eliminated the freedom fighters and eventually emerged as a united force of repatriate officers under the leadership of General Ershad.¹¹ As noted by Maniruzzaman, the expenditure on arms imports by Bangladesh averaged \$18 million per year from 1972 to 1974, and \$30 million per year from 1976 to 1986. Thus, the dominance of the army as a consequence of international arms transfers became significant in years to come, and its legacy is still visible.

Aside from the book's inadequate analysis of exogenous factors shaping the political life of Pakistan and Bangladesh, it is difficult to find fault with Milam's thorough historical analysis. It is unlikely that *Bangladesh and Pakistan: Flirting with Failure in South Asia* will go unnoticed by a wide readership in South Asia, in particular, and in the world in general. ♦

⁹ Maniruzzaman, "Arms Transfers, Military Coups, and Military Rule," 746.

¹⁰ Ibid.

¹¹ Ibid.

Why the Next Asian Tiger Remains a Cub

Alexander L. Vuving

A review of

Lan Nguyen

Guerrilla Capitalism: The State in the Market in Vietnam

Oxford: Chandos Publishing, 2009. ≈ 250 pp.

For nearly two decades, Vietnam has been seen as a likely successor to the “Asian tigers,” a handful of countries including South Korea, Taiwan, Hong Kong, and Singapore that successfully and spectacularly industrialized during the late twentieth century. In the 1990s, it was widely thought that the Asian tigers’ success was due to their Confucianism—and since Vietnam was as Confucian as the four Asian tigers, the country was fully prepared for an economic take-off. Although today belief in the Confucianism thesis has faded and Vietnam has yet to tell a success story, the country stays high on the radar screen of international investors. Vietnam is now given the respected title of an “emerging market” and, according to a study by Goldman Sachs, exhibits “both the potential and the conditions” to rival some of the current major economies.¹

This new expectation is based on an analysis of benchmarks that growth literature has identified as determinants of economic growth. These benchmarks, collectively termed by Goldman Sachs as the “growth environment score,” range from macroeconomic health to technological capabilities, human capital, and political conditions.² Although the intuition that supports this expectation may prove right, the Goldman Sachs projections, which also underlie the now popular concept of the BRIC countries (Brazil, Russia, India, and China), suffer from an analytic weakness—this analysis relies too much on short- and medium-term variables to forecast long-term trajectories. The indices of Vietnam’s macroeconomic stability, for example, have deteriorated

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¹ Goldman Sachs Global Economics Group, “BRICs and Beyond,” Goldman Sachs Global Economics Group, 2007, 131, 134, 136, 141.

² Jim O’Neill, Dominic Wilson, Roopa Purushothaman, and Anna Stupnytska, “How Solid Are the BRICs,” Goldman Sachs, Global Economics Paper, no. 134, December 1, 2005, 10. Much of the business community adopts similar assumptions about the drivers of growth and reaches similar conclusions about Vietnam. See, for example, John Hawksworth and Gordon Cookson, “The World in 2050—Beyond the BRICs: A Broader Look at Emerging Market Growth Prospects,” PricewaterhouseCoopers, March 2008.

sharply since the release of the 2007 study. Behind the façade of Vietnam's high-growth rates, there lurk dismal inefficiencies.³

Can Vietnam still join the top twenty economies in the coming decades? Can it write a success story similar to those of the Asian tigers? To answer these questions, a study of the institutional, cultural, historical, and political aspects of the country's business environment may be better than a quantitative study that relies on indicators of Vietnam's macroeconomic and technological situation. Lan Nguyen's *Guerilla Capitalism* provides such qualitative research. It is a magisterial study of both the rules of the business game and the behavior of state-owned enterprises (SOE), which are the dominant economic players in Vietnam. For Nguyen, the business environment is a socially constructed reality that is weaved by habits and beliefs, ideas and values, practices and norms, institutions and ideologies, and laws and policies. Some parts of this reality can be changed overnight (for example, laws and policies), but the bulk of it can only be changed incrementally. Some parts (for example, ideology) are embedded in other parts (for example, policies and practices); and what people are doing today depends much on what was done in the past. This conception of the business environment, even though not comprehensive, allows *Guerilla Capitalism* to give deep insights into the economic potential and conditions of Vietnam. Although Nguyen does not make predictions, his book provides a good starting point for long-term forecasts about Vietnam's economic performance.

Guerilla Capitalism is both solid and theoretically innovative. Nguyen took on the tough task of integrating insights from different theories into a coherent framework of analysis, and he succeeded. The insights range from János Kornai's soft budget constraint to Richard Cyert and James March's principal-agent problems and Max Boisot and John Child's transaction-governance structures, Geert Hofstede's cultural dimensions, and institutional theory, just to name a few examples. These insights are not adopted at face value but rather are carefully evaluated and then selectively integrated into a comprehensive theory of organization. The analytical pivot of this theory is Douglass North's institutional matrix. Shaped by culture, politics, and history, this matrix includes formal and informal rules of the game, which in turn shape the pattern and internal structure of the firms. With this approach, Nguyen is able to show how ideas and values work in institutions and rules without reifying the former.

³ Alexander L. Vuving, "Vietnam: A Tale of Four Players," in *Southeast Asian Affairs 2010*, ed. Daljit Singh (Singapore: Institute of Southeast Asian Studies, 2010), 372–75.

Nguyen also refuses simple thinking about culture and ideology in Vietnam. In his story, Marxism still permeates the economic environment in Vietnam not so much because people dutifully apply it but because it lives in the concepts they employ to think about problems and find solutions—for instance, in the guiding ideas that shape the payment practice in Vietnam’s state sector (chap. 10).⁴ With regard to culture, Nguyen refutes a popular view that in Vietnam subordinates tend to respect their boss by showing that “subordinates respect their boss only if the boss is charismatic and ethical.” In fact, they listen to and follow their boss because the latter is powerful (pp. 152–53).

In *Guerilla Capitalism*, there are interesting solutions to several puzzles. For example, why has socialism never been successful economically in Vietnam despite the fact that its ideals and outlooks are compatible with Vietnamese culture? The answer is that the Vietnamese do not usually extend their trust beyond a small circle of family members and close friends. In socialism the owner is the ambiguous entity called “the state,” which is represented by the government. But in Vietnam, the government does not trust its officials and these officials do not trust each other, unless they are family members or close friends. As a result, Vietnam’s SOEs suffer from a lack of cooperation among firm managers, over-centralization, and government policies that discourage risk-taking and entrepreneurial behavior. This situation is self-perpetuating inasmuch as lack of cooperation justifies the need for more centralization. Yet why do some of Vietnam’s SOEs still perform very well given how extremely inefficient they are? The reason is likely that the real power in the firm is shared by a small group of family members or close friends who thus trust each other and cooperate well. These people run the enterprise as if it were a family business and practice a form of corruption by which their real income is paid as a certain percentage of the output rather than as a salary (see chap. 9).

Nguyen argues that the “ideal type” of the Vietnamese firm is a small-scale, family-controlled enterprise that operates with short time horizons and little fixed capital. This guerilla form of capitalism results from an institutional matrix that is characterized by high transaction costs, insecure property rights, and a family-based, rural way of life (see chap. 6). Under these conditions, “informal networking, personal trust, flexibility, and self-financing should be the order of the day” (p. 163).

⁴ Nguyen describes this practice as “embedded materialism,” but I think “embedded Marxism” would be a better term.

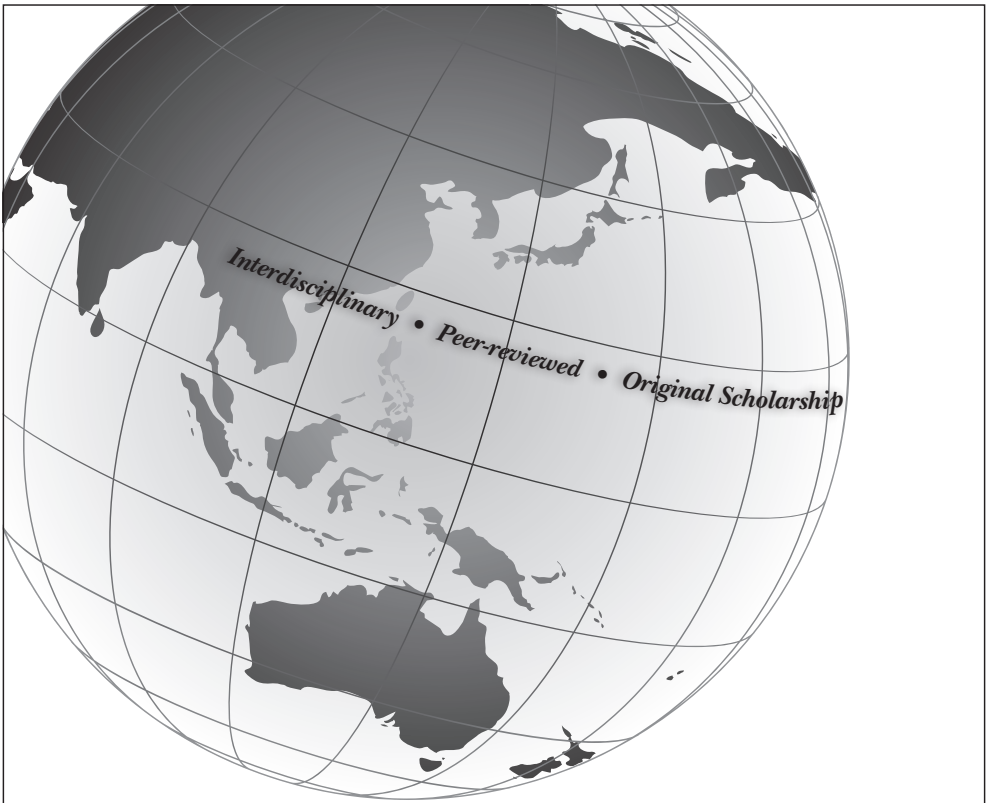
Nguyen offers “a unique approach to SOEs, reading SOEs through the language of the ideal type” (p. 185). The “ideal type” is a model of firm that is constructed to “capture the essential features of the Vietnamese institutional matrix” (pp. 187–88). Nguyen argues that “the institutional matrix in Vietnam is more likely to produce, or be most ‘suitable’ or *ideal* for, a special form of capitalism, *guerilla* capitalism” (p. 111, emphasis in original). If this is the case, multiple ideal types are possible. The Vietnamese institutional matrix may be equally suitable for several types of firms.

The ideal type of firm constructed by Nguyen is clearly a product more of traditional Vietnamese culture than of contemporary Vietnamese politics. While *Guerilla Capitalism* addresses many features of Vietnamese politics, its institutional matrix emphasizes culture at the expense of politics. This leads the book to neglect an additional ideal type that gains its distinctive features from its perfect adaptation to the mixture of communism and capitalism that Vietnam has been experimenting with for more than two decades. Imagine an SOE whose director has secured his job by sharing a part of his unofficial income with all his bosses. This director then runs the firm as his own business, sharing a part of the firm’s profits with the boss of a state-owned bank in order to secure easy loans from the latter. He also shares a part of his money with the chief of the local government, who then extends to the firm the right to use large pieces of land at insignificant prices. This model applies to private firms and foreign investors as well.⁵

Under such conditions, can Vietnam sustain high-growth rates in the long run? The answer is “no, but yes if...” This “if” includes, but is not limited to, a radical restructuring of the state sector. Parts of this reform must include, according to Nguyen, giving families ownership of firms and giving firms autonomy in choosing who to employ and how to pay those employees.

Guerilla Capitalism is an inspiring book that can be read from many angles. It provides a solid theory to explain firm behavior, a concise survey of the Vietnamese cultural matrix, and an in-depth analysis of Vietnamese SOEs. It is a must-read for anyone who is either curious or serious about business in Vietnam. ◆

⁵ For further discussions of this form, see Vuving, “Vietnam: A Tale of Four Players,” 369–72; and Bill Hayton, “Vietnam’s New Money,” *Foreign Policy*, January 21, 2010 ⇒ http://www.foreignpolicy.com/articles/2010/01/21/vietnams_new_money.



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