

**Globalization, Governance, and the Authoritarian Westphalian State: The Case of  
China**

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There is no doubt that the forces of globalization are providing new challenges for international and domestic governance. Some have suggested that the challenges are particularly severe for authoritarian political regimes. The need to be increasingly accountable to liberal international trading and investment norms and the release of the state's monopoly over the provision of information and communications will, it is argued, undermine authoritarian control and help release the forces of a more plural society. To compete effectively the state will be forced to cede sovereignty on certain issues upward by empowering transnational institutions, to relinquish many business decisions to transnational business corporations, and to be held more accountable to a nascent transnational civil society. At the same time, the state will be forced to cede sovereignty downward not only to local administrations but also to new social actors that are crucial to national success in a global world. Such a scenario must be extremely troubling to authoritarian regimes. However, we are far from hearing the death-knell of the nation-state and there is little empirical evidence to date that shows a correlation between membership in organizations such as the WTO and a decline in state capacity of authoritarian regimes. Such regimes may be able to adopt a variety of strategies to limit the impact of globalization and even to turn it to their benefit. However, over the long term there is no doubt that serious new challenges are presented to regimes that continue to engage that will require significant amendment of previous political practice.

This chapter focuses on China's integration into the global community. The November 1999 agreement between China and the U.S. on the former's terms of accession to WTO, following its agreement to sign the two UN covenants on human rights in 1997 and 1998 would appear to signal the Chinese leadership's intent to be a part of the global

community. By signing these agreements, China has implicitly acknowledged that international monitoring is justifiable not only for domestic economic practice but also for political behavior. However, in practice, while China clearly wants to be a respected member of the international community it is deeply conflicted about how active a role to play in international governance and few have thought about how the process of globalization might impact on domestic governance. The fact that globalization has and will continue to impact on domestic governance is poorly perceived, other than in terms of the need to censor incoming information and cultural flows. Like other countries, China wishes to derive the macroeconomic benefits of globalization, but it is uncomfortable with the costs of social, political, and cultural readjustment. Foreign observers have been ambivalent about how to deal with the rise of China's economic power and its integration into global frameworks of governance. Some, taking their cue from historical parallels with the rise of new powers such as Germany and Japan at the turn of the twentieth century, see conflict as inevitable; others argue that the changed international situation makes successful accommodation feasible. The chapter begins by reviewing Chinese perceptions of globalization and how its predisposition hampers successful integration. It then considers how China has responded to the challenges to international and domestic governance. It concludes by looking at the key challenges that global communications present for the current regime.

## I

As in the rest of the world writing about globalization has become a mini-industry for academics and policy-makers. Writing on globalization became a hot topic after a series

of lectures delivered in 1993 by the historian, Arif Dirlik, and the subsequent publication in Chinese summarizing his views. It warmed up even more with the onset of the Asian financial crisis. However, the overwhelming majority of this writing concentrates on "economic globalization" with a little less attention paid to "cultural globalization," mainly interpreted as the domination of American cultural products, and virtually no consideration given to the impact on governance. Those who have written about governance have tended, perhaps understandably, to be vague in terms of the specific implications for China. For example, political theorist Liu Junning makes the case that while the shift from a planned to a market economy has promoted economic globalization, there has been a parallel shift from authoritarian politics to democratic politics that has promoted political globalization. However, he does not discuss these double processes in the context of China. More specifically Xu Yong and Zeng Jun propose that a system of contracts be used to govern political and social relationships that would match those that regulate market relations. This they feel would ensure popular control of government while helping the regime to build up political capital. However, the authors do not demonstrate how this process is linked to the forces of globalization.

Indeed, the impact of globalization is best seen in the economic sphere. Starting in 1979 Chinese development strategy shifted from import substitution, the privileging of accumulation over consumption, and viewing foreign trade as irrelevant to economic growth, to an active interaction with the world economy in which foreign trade and latterly, investment, were seen as major engines of growth. China entered the global markets at a fortuitous time and with its cheap and abundant labor supply benefited from the rapidly unfolding globalization of the manufacturing process, rapid strides in

telecommunications, and internationalization of capital markets. The economic figures speak for themselves. The ratio of foreign trade to GDP has risen from 12.6% in 1980 to 39.5% in 1995; from 1990 to 1998 trade alone almost tripled from \$115 billion to \$323.9 billion (of which over 60% is concentrated in Asia, with the U.S. accounting for 21% of exports and 12% of imports); foreign direct investment in 1998 totaled \$45.5 billion (over 60% coming from Taiwan and Hong Kong!), representing an FDI ratio to foreign investment of almost 80%. China's own FDI in 1994 of \$16 billion was second only to Taiwan among developing countries (however, Hong Kong and Macao were recipients of 61%). Foreign reserves (excluding gold) touched \$149.2 billion in 1998, while external debt was \$156.1 billion.

Xenophobic outbursts and leadership manipulation notwithstanding, withdrawal from deeper integration into the world economy and its evolving structures of governance is impossible. This was clearly recognized by President Jiang Zemin when he noted in March 1998, "Globalization is the objective trend for global economic development and nobody can shun it.... A developing nation like China should be both daring and good at involving in the international cooperation and competitions under such economic globalization." This point was made emphatically when, despite significant domestic opposition, Jiang and Premier Zhu Rongji pushed ahead with a deal with the US on terms of accession for WTO. This reflected the fact that the current leadership's legitimacy to rule is tied to its capacity to deliver the economic goods and these can only be delivered over the long-term through increased trade, foreign investment, and a more disciplined domestic economy that WTO membership would bring. Entry early in 2000 not only was important for national pride and to fulfill Jiang's desire to steer China to great power

status but also for very pragmatic economic concerns. With FDI dropping, foreign interest in China waning, and domestic reforms stumbling, early entry was seen as the best way to stimulate the economy. This was compounded by fears that barriers to entry might rise subsequently, especially as the next round of talks would cover two issues of vital interest to China: agriculture and trade in services. By joining early China might be able to forge alliances to secure policies more beneficial to its own national concerns.

Despite this more accommodating approach to foreign trade and capital, in crucial respects both Deng Xiaoping and Jiang Zemin's approach has mirrored that of their nineteenth century predecessors in the "self-strengthening movement" who sought to import Western techniques and equipment while keeping out new cultural and political values. This previous policy of selective adaptation proved shortsighted. The Chinese did not comprehend the interrelated nature of Western societies and failed to see that Western technology could not be easily disentangled from the social and cultural matrix in which it was embedded. It remains to be seen whether the CCP will be more successful in gaining the benefits of globalization without accepting its underlying premises. For example, WTO membership seems to presume not only a liberal trading order but also an independent legal system that constrains government as necessary, transparency, accountability, and a relatively pluralistic political order.

## II

Since Mao Zedong initiated contacts with the U.S. and engineered the PRC's entry into the UN in the early 1970s, the general consensus has been that China has moved from rejection of the international status quo to acceptance. However, it is more correct to say

that China has acquiesced in the international order and while it has been a joiner, it has not been a doer or rule setter for international governance. In major part this has been because the main priority has been for China to develop its own economic strength and it has seen international organizations as helping it meet this objective. This has made it reluctant to challenge the existing rules of the game unless they directly confront Chinese claims to sovereignty or economic interests.

Second, China is a latecomer to all international governmental organizations and it did not participate in the drafting of the "rules of the game." The incapacity of China to change significantly these "rules of the game" to suit its national conditions has reinforced its perception that international governance is structured essentially to pursue the agenda and interests of the West, especially the U.S. This was apparent in the official response to the Seattle meeting of the WTO that criticized the "small number of economic superpowers" that had tried to dominate proceedings over the interests of the developing countries. China's self-told history of 150 years of shame and humiliation at the hands of foreigners, the anti-imperialist thrust of Leninism, the party's own legacy of distrust and betrayal, and the leaders' tendency to interpret decision-making in terms of a "zero-sum" game mitigate against constructive engagement and interaction with the existing international governing structures.

Compounding this is the fact that the CCP has never been successful in transnational governance. Its attempts in the 1960s and 1970s to lead a loose coalition of nations to oppose "U.S.-hegemonism" and "Soviet revisionism" failed, as did its attempts to fund pro-Maoist groups to destabilize neighboring governments in Asia. Not surprisingly,

Deng Xiaoping's advice to his colleagues and successors was not to take the lead in international affairs, lean toward the U.S., and concentrate on economic development. However, this is difficult for a nation with a psychology that emphasizes the superiority of Chinese culture and that sees an international leadership role as a right to be reclaimed.

Such sentiments can lead to instability when combined with the more strident nationalism promoted by, or acquiesced to, by President Jiang Zemin and his advisers. While China is currently open for business, distrust of foreigners and significant periods of closure have been common. As the Emperor instructed Lord McCartney in 1793 China had no need for British goods and for a good relationship George III simply had to "act in conformity with our wishes by strengthening your loyalty and swearing perpetual obedience so as to ensure that your country may share the blessings of peace." More recently, the group denounced as the "Gang of Four" after the Cultural Revolution (1966-76) held that foreign trade had no place in development and that Deng Xiaoping's first attempts to stimulate the economy through foreign trade amounted to nothing more than treason and the selling off of China's natural resources to the imperialists. The xenophobic and sudden outpouring of anti-foreign sentiment following the NATO bombing of the Chinese Embassy in Belgrade on May 7, 1999 revealed how close to the surface distrust of foreigners still lies.

Since 1989, the Chinese leadership has been fairly successful in manipulating public opinion to instill nationalism as a legitimizing core value. While this may aid the regime's short-term stability, it presents two challenges in terms of governance. First, it mitigates against constructive involvement in international organizations as rising

nationalism compromises the ability of the nation-state to deal with internationalism. Second, it reinforces the outdated notion of sovereignty that still underpins the current leadership's perceptions of the world. By and large China is an Empire with a Westphalian concept of the nation-state trying to operate in an increasingly multilateral world. In fact, what China wants is an economic order that is international in terms of the benefits it brings but not necessarily global if that means de-centering decision-making away from the nation-state. China has displayed a basic suspicion of multilateral frameworks and has generally preferred to lock discussions into bilateral diplomacy. Thus, on joining WTO China quickly asserted that the organization stipulated that "regardless of size, all member countries enjoy equal rights." This suspicion is even more acute on political and social issues. China was quick to condemn President Clinton's attempts to bring labor standards into WTO considerations and commented that the "so-called labor standards were nothing but a covert form of trade protectionism" and confirmed that labor conditions were nobody else's business and that there should be no interference on this issue "by other countries in the name of protecting human rights."

These trends explain the seeming contradiction in China's international behavior. China wants to be taken seriously and President Jiang Zemin, in particular, has sought a role in global governance through what he has termed "Great Power Diplomacy" and the forlorn objective of creating a multi-polar world in one that will clearly be uni-polar in terms of real power well into the twenty-first century. At the same time, the notion of the paramount nature of the sovereign state and the equality of all nations, irrespective of size and status, leads to the almost embarrassing procession of leaders that troop through Beijing to meet with the President. The smallest island-state receives the same treatment

in the *People's Daily* and on Central Television as a major industrial power or Asian nation. The dedication to sovereignty and a territorial definition of China that is the most expansive in history, and China's reluctance to move discussions out of bilateral frameworks, causes uncertainty in the region. It also means that China is more willing to join regimes that govern the international economy but is less enthusiastic about those regional or global frameworks that would place real restrictions on Chinese military capabilities. The CCP and the military have been adamantly opposed to any attempts to establish an Asian collective security system, primarily because they do not wish to give Southeast Asian nations a forum in which to criticize collectively its claims to sovereignty in the South China Sea.

It can also lead to decisions that are described as principled in China but that appear petty to others. Of particular importance in this respect is China's concern to deny international space to Taiwan and to punish those countries that show sympathy toward Taiwan's views. This also underlies the excessive praise and attention that China lavishes on small Polynesian, Micronesian, or Central American states that recognize China or it fears may switch recognition to Taiwan. One extreme example was China's veto in the Security Council (February 1999), something almost unprecedented, against the continuation of the UN Preventive Deployment Force in Macedonia because of the latter's switch of diplomatic recognition to Taiwan in January. Sadly, in light of subsequent events, China's Ambassador to the UN, Qin Huasun, did not mention Taiwan as justification but said that peacekeeping forces were no longer necessary as Macedonia has "apparently stabilized in the last few years."

One example of China's poor understanding of the norms of international governance is the discussion of human rights and its decision to sign the two UN covenants, even if it has not yet ratified them. China does not seem to have appreciated that by signing the covenants it is accepting that there are international norms concerning the freedom of organization, right to work, procession, formation of political groupings etc. that transcend national boundaries. China's leaders appear to have thought that they could sign on and then hold off implementation by retreating behind sovereign borders and talking about different histories and national conditions. The international human rights regime has been one forum in which China has been active in trying to shape guidelines. It has fought to resist scrutiny of domestic abuses while trying to focus attention on the actions of "hegemonists and imperialists." China has been a strong advocate of the right to development and has stressed that providing food and livelihood for its people take precedence over rights of political expression and demonstration.

China has been particularly adamant in preventing monitoring of human rights by international agencies from leading to criticism of its domestic practices. It was particularly stung by the critical resolution in August 1989 adopted by the UN Subcommission on the Prevention of Discrimination and Protection of Minorities, the first time that a permanent member of the Security Council had been censured on human rights grounds in a UN forum. Subsequently, it fought a hard battle to escape criticism in the annual Geneva meeting of the UN Commission on Human Rights over the objections of the U.S. and the European Union. To escape this possible avenue of censure, China has moved to situate discussion of its human rights record in less intimidating bilateral forums. China declared its willingness to conduct discussions with countries on a one-to-

one basis so long as pressure at Geneva was dropped. This was an effective strategy to marginalize concerted international censure of China's human rights abuses.

However, like the former Soviet Union, China has tried to manipulate the "international human rights game" and gain international concessions by timing the release of a few political prisoners. As the Soviet Union found this is a difficult game to play. China's leaders have now acknowledged to the international community and their own people that they accept that certain UN defined rights are universal and like it or not these can be held up to international scrutiny. Not only does this open up China to evaluation in terms of international norms, something it finds difficult to accept, but also it legitimizes debates on human rights domestically, something it finds problematic. Indeed, legal reformers in China have seized on the signing of the two covenants to provide an impetus for reform of some of the most problematic areas of domestic law, including eliminating the excessive use of the death penalty and avoiding the courts by sentencing people to reeducation through labor, and amending the criminal law to include things such as the right to remain silent. In fact, as one prominent legal specialist stated while China joined the economic mainstream twenty-years ago it now needed to join the human rights mainstream.

China needs to be able to feel comfortable with the framework for international governance that it seeks to join. Many important issues beyond the directly political and economic, such as environmental protection, drug smuggling, trafficking in women, and AIDs, needs its active participation to resolve. In turn, other major nations need to incorporate China as a more equal partner and to build China's reasonable concerns into

the architecture of international governance. China for its part needs to reduce its suspicion of hostile foreign intent and adjust its outdated notion of sovereignty to accept that some issues need transnational solutions and that international monitoring does not have to erode CCP power. Without accommodation on both sides, China will remain a rather grumpy, unpredictable player in international governance.

### III

China's decision to open up its economy during the 1980s and the pressures of globalization have inevitably led to or exacerbated political differentiation within China. Clearly different regions and groups and new industries are being privileged by engagement with the world economy while the pillars of CCP power in the state-owned sector are being eroded by increased international competition. Four interrelated aspects that provide challenges to domestic governance are discussed here. First, the legal system has expanded rapidly to accommodate international capital and trade. Second, international economic engagement has contributed to new inequalities that have emerged as a byproduct of the reforms, a process that has, thirdly, created new challenges in terms of the provision of public goods and services. Fourth, the CCP is confronted by how to accommodate the social forces that will benefit from further globalization while disentangling itself from elements of the traditional power base. These trends are not the products of globalization, indeed domestic policy has been the prime cause, but globalization will exacerbate them and WTO entry could have a significant impact on speeding up the processes.

To deal with the regularization of its domestic economy and its engagement with international capital and trade, China has undertaken one of the most extensive crash programs in the history of legal development. Throughout the 1980s China made significant changes to both its trade policies and the institutional structure for dealing with foreign trade and investment. However, as most foreign investors would attest, inadequate implementation, lack of transparency (especially with internal regulations that foreigners are not meant to see), and a tangle of local administrative regulations detract from the effectiveness of the system.

To limit the impact of foreign engagement on governance and Chinese society as a whole China initially set up Special Economic Zones (essentially export processing zones). Over the last ten years the borders around these zones have steadily broken down as more of the country has been opened to investment and trade or localities have jumped the gun and declared attractive deals for foreign investors. This has led to unpredictable governance of foreign investment with unclear lines of authority and jurisdiction between the Center and the localities. The zones did, however, allow space to experiment with much of the legislation that now governs China's modern economy and workforce relations.

WTO entry will deepen the process of regulatory design for international trade but also will have a broader impact on the functioning of the domestic legal system. The major challenge confronting the CCP will be to accept that membership presumes that disputes will be resolved by an independent rules-based supra-national body rather than by party-fiat or through the mediation of local political connections. Within China, pressure will

mount for a more independent judiciary to adjudicate on economic issues and for greater transparency on transactions. This runs counter to current practice and will be hard to change. The practice noted above of internal regulations that foreigners are not allowed to see but that govern transactions will have to be stopped. An even bigger challenge will be to enforce laws and regulations passed at the national level. While such laws and regulations may represent policy intent, they are contravened and often undermined by a myriad of ministerial regulations and locally generated rules that provide the real operating context for activities. As the saying of local officials goes "they have their policies and we have our countermeasures" (*tamen you zhengce, women you duice*). Last but not least, it is unlikely that there will be genuine judicial independence anytime in the near future.

There has also been considerable institutional adaptation as a result of increased economic engagement. Initially several new commissions were set up to deal with foreign investment, imports and exports and in March 1982 the State Council decided to bring all foreign trade administration under one organization by forming the Ministry of Foreign Economic Relations and Trade (MOFTEC). In turn, in 1984 MOFTEC gave up its centralized monopoly over foreign trade by expanding the number of foreign trade corporations from a dozen to several thousand and allowing them independence for fiscal and planning purposes. The Ministry has remained paramount, however, in policy in this field and was the front organization for the discussions with the U.S. and other countries on China's terms of entry into WTO. Together with those sections of the Ministry of Finance and the People's Bank of China that are engaged in foreign affairs, it has

prospered most within the state bureaucracy from globalization and has consistently supported China's further economic integration.

The concentration of foreign direct investment has exacerbated regional inequalities, with greater wealth concentration in the coastal areas in the East. In 1998, Guangdong alone received 26.5% of foreign direct investment, the three major municipalities of Shanghai, Beijing, and Tianjin received 17.5 percent and Jiangsu province 14.6%. By contrast, the nine provinces and one municipality in the northwest and southwest of China received only 3% of all foreign direct investment. While annual growth in per capita rural income from 1988 to 1995 averaged 4.71% for China as a whole, it was 11.66% for Jiangsu, 9.33% for Beijing, and 7.11% for Guangdong. In the southwest it was only 0.72% for Guizhou, 0.62% for Sichuan, and 1.26% for Yunnan. As a result, the average 1998 rural income for the coastal areas was about twice that of the southwest, and Shanghai was three times higher. In urban areas real income was also consistently higher with Shanghai enjoying real income approximately twice that of the northwest and 60% higher than that in the Southwest.

These trends have caused major migration flows, with anywhere between 80 and 120 million people moving to find work on a temporary or more permanent basis. Significant numbers have been attracted to the employment opportunities offered in the Special Economic Zones, along the coast, and in major municipalities in the manufacturing sectors that have developed with foreign investment. This has led to a breakdown of the old residence control system that kept the farmers out of the cities and protected an intricate system of benefits and allowances that favored the urban over the rural.

Currently, the government does not provide welfare or education for these migrant families and they are not integrated into local government service provision. As China opens itself to greater foreign investment, labor mobility will increase and this will require a major re-thinking of traditional government service provision that can no longer be based on place of birth. Already, in the urban areas, native place association is becoming the main organizing principle for the migrant communities, many of which have set up their own governing and welfare structures outside of the state. This does not sit well with the CCP's desire to control all social space and to lock organizations into existing systems of regime patronage.

While the central government has continually stressed that more attention has to be paid to the poorer interior, this has not translated into a coherent policy approach and the powers that the coastal provinces have won will not be given up easily. China is pursuing an extremely inegalitarian development strategy, especially in comparison with its East Asian neighbors that it seeks to emulate. There is enormous inequality in the provision of public goods and services and the main incentives at the present time are for local governments to stress revenue mobilization at the expense of other distributional and growth objectives. This has had all the usual perverse effects: orphanages struggle to meet costs by operating karaoke bars, doctors rely on kickbacks from pharmaceutical concerns and concentrate on expensive curative interventions rather than preventive care, and nature reserves struggle to restrain poaching by villagers only to turn around and contract out extraction to logging, fishing, or mining concerns. The most important development causing this has been the de facto decentralization of the fiscal system and this more than any other factor accounts for local variation. A successful resolution of

this dilemma lies not only in increasing the tax base of the government, a solution explored by the World Bank and favored by the Chinese central government, or squeezing the rural poor through levies and fees, a strategy often favored by local authorities, but also a re-thinking of the kinds of work in which the government should be engaged. Without a more open political system there is little alternative for those disadvantaged than to suffer in silence or to riot as they are increasingly doing.

In addition to the regional impact of globalization, there is also a sectoral impact that will undermine further the state-owned sector of the economy and current agricultural practices and favor the growing joint venture, foreign owned, and non-state sectors. Jiang Zemin's and Zhu Rongji's extraordinary efforts to enter the WTO during 1999 will have major consequences for governance and will heighten social tensions over the short to medium term. The terms of entry agreed upon with the U.S. will help formalize market structures in China, develop the internal market (most provinces trade more externally than with each other), and develop more effective institutions to govern and finance the market. Some have surmised that Zhu Rongji and fellow reformers have decided that WTO entry may be the only way to discipline domestic enterprises. This would have major consequences for corporate governance while the fall-out will set new governance challenges. WTO entry is clearly contested with opposition from those sectors of the economy and regions that feel they will lose out.

In 1997-98 the Chinese leadership announced an ambitious set of reforms to rationalize the economy, a number of which were designed to reduce the non-economic burdens of state-owned enterprises (SOEs) that would also help meet WTO entry criteria. WTO

entry should preclude continuation of massive subsidies to this sector and the considerable non-economic role performed by the SOEs. This will make it extremely difficult for the CCP to pursue its current social welfare and industrial policies, something that reformers might well favor.

Some figures show the mounting problems of supporting this sector. Of the 100 000 plus industrial SOEs, World Bank figures suggest that perhaps under 10 percent are fundamentally viable. SOEs absorb 60 percent of national investment; receive total subsidies amounting to one-third of the national budget; and net credit to SOEs reached over 12 percent of GDP in 1995. Importantly, 50 to 75 percent of household savings, mediated and directed by state banks, currently goes to finance SOE operations. Were a number of SOEs to go under and the state did not guarantee their losses, there would a lot of unhappy urban families who had lost their life's savings. The World Bank estimates that in 1996 50 percent of SOEs lost money (unofficial estimates are higher).

It has become increasingly apparent that over the long-term government resources would be insufficient to pay depositors and bondholders if SOEs are unable to service bad debts. At the same time, with a declining revenue base the state was unable to offer the same kind of bail out and subsidies declined from 6% of GDP to 4% in 1994. This made it virtually impossible for many SOEs to meet their full range of social obligations, and even salary payments, thus in turn speeding up the need for pension, medical, and housing reform. Thus, the leadership began to accept bankruptcies and more open unemployment; this indicates why WTO entry is important. It is important not only as a disciplining mechanism but also as an external force that reformers can turn to to blame

for the pain that will be inflicted on the privileged urban working-class during restructuring.

However, the full political effects of this process are unpredictable. To become viable and to conform to WTO norms, the medical, housing, and pension obligations of the enterprises need to be removed and taken over by a mixture of individual and government service provision, with the employee contributing in a manner more comparable to firms in the West. Yet, if implemented fully, these reforms would reduce further the intrusive role of the state and sponsor far greater social differentiation. In their totality, the policies would amount to a "revolution" in the relationship between state and society in terms of taking the former out of crucial areas of the life of the latter. With individuals increasingly responsible for finding their own work and housing, taking more individual responsibility for social security and pensions, and becoming consumers in an increasingly marketized economy, it is inevitable that they will wish to have a greater political voice, accountability over officialdom, and as a result will develop new organizations to fulfill their desires and objectives.

The consequent increase in the pace of lay-offs will provide challenges for government reemployment policy while revealing the weakness of the Chinese system to provide the necessary extra social security and welfare support. This is contributing to significant discussion about the role of government. Government revenues during reforms have fallen from 36% of GDP in 1978 to around 11% in 1998. China needs to think about which functions to retain, which to let the market handle, and which to delegate to the nascent, but highly restricted, third sector. Government control over the third sector

derives from both the Leninist culture that is suspicious of any activity that takes place outside of its control, and fears that a thriving sector would be open to influence from the international community.

This does not necessarily mean that the forces of globalization will buffet the CCP out of existence and if harnessed may actually give it a new lease on life. With legitimacy based on economic criteria the CCP has to maintain high levels of economic growth to sustain social stability. With deflation continuing, its own major infrastructure investments not providing a significant enough boost, it needs to consider alternatives. Also, given the drop in FDI this year and the increasingly negative view of major foreign investors toward the China market, new policies have to be sought. The gamble is that WTO entry will not only help discipline the domestic economy but also will give a boost to growth rates in China. This explains the optimistic articles that appeared in the Chinese press after the U.S.-China agreement arguing that WTO entry will provide more jobs than will be lost and that it could add 3 percentage points to growth over the next few years.

However, to be successful the CCP has to lower the expectations of the urban working class, something that it has been doing quite successfully. Given that the CCP rejects any independent political or labor organizations, there is no one to represent their interests effectively outside of the party apparatus. In addition, the CCP must find ways to integrate the newly emerging social forces into the economic and, ultimately, political power structures. This has been especially contentious with respect to the private business sector, much of which is concealed as collective or state enterprises. The CCP has steadily ceded more ground to the private sector of the economy, recognizing that it

has been one of the main driving forces for economic growth and that it will benefit further from greater international economic integration. Thus, in March 1998 Article 13 of the State Constitution was amended to elevate its status from a "complementary component to the socialist public economy" to an "important component." On January 4, 2000 the chair of the State Development Planning Commission announced that the private sector would be put on an "equal footing with the SOEs" for the first time since 1949. The private sector has found it difficult to obtain credit, has been vulnerable to the predatory behavior of local officials, and has not been able to list on the stock markets. This will not change customary practice overnight but should provide better political protection for the sector.

Ceding political power or even drawing the new entrepreneurs into the existing power structure has been much more contentious. Conservative ideologues such as Deng Liqun have resisted recruiting wealthy private entrepreneurs into the party claiming that to do so would change its nature. While not expressly forbidding private entrepreneurs to join the party, it has stopped admitting wealthy private entrepreneurs. In Wuxi City I met with one of the wealthiest local business people who had first been encouraged to join the party and then requested to withdraw. He was not unduly bothered and his economic power meant that local party leaders still paid him due homage and consulted with him regularly. CCP leaders' training in Marxism should have convinced them that political power will be constructed on the economic base. As globalization continues the privileging of new groups, the CCP will be presented with a major challenge of political accommodation.

## IV

The advent of the information revolution and the need for information that is delivered reliably and at high speed provide a major challenge for governance. The Chinese government has traditionally practiced a system of information control and censorship with an intricate grading process for who at what level is allowed to see which kinds of information. There has been a substantial tradition in China of managing information flows to ensure that the state is the primary if not sole provider of information. The CCP has tried to channel information flows so that they are vertically linked and have eschewed the horizontal flow of information. This has meant that access to information in the Chinese system has formed an important basis for power and the ability to provide the correct interpretation of the past has provided the legitimacy to decide on current policy. Under such a system the real basis of exchange is secrets and privileged access to information.

This system can starve leaders of the reliable information they need to make appropriate policy decisions. The more coercive the regime, the more what passes up is what leaders want to hear. Negative information is suppressed and its agents repressed. What globalization demonstrates better than at any point in the past is that at a certain developmental point—that is where the need for information becomes very great—it becomes extremely difficult to reduce coercion without inviting vast structural change. In the Soviet Union prolonged coercion and bureaucratization so deprived the state of the capacity to innovate that eventually it broke apart. What appeared at the top as rational public planning was based on a jerrybuilt system of deals and private negotiations.

In the Soviet Union not only did little accurate information filter to the top, the top rejected and suppressed what little it got. Nor could the directors of such a highly centralized state system trust one another or their party representatives. Once the move was made to make the Soviet Union a high-information, low-coercion system, the entire organizational structure unraveled. This is precisely the problem that the current leadership in Beijing is trying to grapple with. It is not surprising that the rapid spread of the Internet and new information technology has caused ill ease among those managing the system as it threatens their monopoly over the flow of information.

In a number of respects, the leadership of the CCP has treated the Internet in the same way as it has traditional print forms. It has tried to institute a system of controls that will allow it to participate in the benefits of faster information flows without having to open up the information system and allowing in the disadvantages of views and information that may challenge the CCP's interpretation of events. First, it has only authorized four networks for international access in order to control information flows. In addition to pornographic materials, it has also blocked access to the websites of publications such as the *New York Times*, CCN, and those human rights' organizations that are critical of China. In addition, since 1996 it has required all Internet users to register with the police or face punishment. More recently, the state has forbidden China-based websites from using news derived from websites that are situated outside of the Mainland. This has resulted in a number of service providers in China dropping news services from their menu and concentrating on "safe" areas of information provision such as sports and entertainment. In addition, traditional media forms are prohibited from using material derived from any website. To gain better control over the sector the Ministry of

Information Industry was created in 1998 and includes the former ministries of posts and telecommunications, radio, film and broadcasting, and the "leading group" on information policy. The Ministry is the primary regulator for this sector and reports directly to the State Council.

The Ministry and its head, Wu Jichuan, have been hostile to allowing foreigners market access for both political and commercial reasons. In fact, in early November 1999, Minister Wu was loudly trumpeting that foreigners would not be allowed to become involved in the development of Internet operations in China and was very hostile to the supposed offer in April 1999 that foreign firms could eventually take a 51% stake in telecommunications. In principle, the agreement on WTO should significantly affect this situation and China has ceded that the Internet is open to foreign investment and that telecommunications companies will be able to control up to 49% of telecommunications service companies upon accession to WTO and 50% after two years. However, cases will be dealt with on a one-by-one basis and it is the Ministry itself that will make the decisions on granting licenses. This, in combination with political sensitivities and the local protectionism, would suggest that there will be a concerted attempt to restrict foreign access in the Internet sector, especially for Internet service providers.

The Chinese leadership clearly is aware that it cannot control completely the flow of information or access to forbidden sites by its citizens. Its intention is to lay down warnings about the limits of the permissible and to deter the casual browser from becoming too inquisitive about the world outside. In this limited respect, it may be successful. Even though China has become extremely porous in terms of information

flows, there is scant evidence to suggest that this alone has challenged the CCP's monopoly on political interpretation for the majority. It should be remembered that as China enters the new century 90% of its households are still without telephones and 99% of the population does not have access to networked computers in any case.

It is likely that China's response to the Internet will be differentiated with much stricter controls on news and political information and practices and controls that match more clearly international practice for e-commerce dealings. Indeed, there are new opportunities for the Internet for China. Chinese will be the second language of the Internet and may even become dominant. This provides propagandists in Beijing with untold new opportunities to try to shape a Chinese political culture that stretches well beyond its physical boundaries.

However, even in the commercial area there are security concerns that can be played upon by ministries and other groups in China to restrict foreign access. For example, in January 1996 the State Council announced that the *Xinhua News Agency*, run by the government, would in the future be responsible for the distribution of all on-time economic information that was disseminated by agencies such as Dow Jones and Reuters. This would totally defeat the purposes of such services. The official reason given was to check content to ensure that there were no inaccuracies in the information provided or nothing that was hostile to China. The real reason was the manipulation of leaders' fears of unrestricted information flows to use the argument of state security to obtain an economic monopoly. *Xinhua* was apparently feeling left out of the spoils of the new technology and saw this as a good way to make money.

The challenges of globalization for governance in China are thus numerous and it will take enormous skill on the part of the current leadership to prevent them from undermining further the power and legitimacy of the CCP. To date, while the leadership has shown itself to be adept at adapting to economic change, it has not displayed the necessary skill at confronting the social and political consequences that arise from this change. Each time that the need for far-reaching political reform is floated, the senior leadership has backed away, hoping that its authoritarian power structures will enable it to crush any overt opposition and ride out any unrest. However, it is clear that the forces of globalization will require a considerable shift in the way the CCP governs the system and will require political reform that not only seeks to make the system more transparent but also more accountable. Given its record to date this will be a significant hurdle for the current leaders to overcome. Thinking that they have learned the lessons of their fast developing neighbors in the region, political coercion has been applied in fits and starts, combined with growing economic liberalization. However, the requirements for China for continued high growth are high information, declining coercion, less hierarchy, and more accountability by means of representative institutions and a marketplace in which priorities of goods and services in the economic sphere are balanced by needs and wants in the political sphere. Whether the Chinese leadership can deal with this challenge of governance will attest whether it can retain its leadership over China's development in the 21<sup>st</sup> century.