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The Rise of China: How Economic Reform is Creating a New Superpower by William H. Overholt

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BOOK REVIEW

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THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER. By WILLIAM H. OVERHOLT. New York, New York: W.W. Norton & Co., Inc. 1993. Pp. 431.

Since Deng Xiaoping¹ initiated economic reform in the People's Republic of China (China) in 1979, China has become one of the world's fastest growing economies.² Considering that China bears the burden of 20 percent of the earth's population, its progress seems even more praiseworthy.³ Since economic reform on such a large scale was previously thought to be impossible for a country as large as China, William H. Overholt feels that its success merits Deng the recognition as one who has "done more to alleviate world poverty than any other man in world history."⁴ Deng and his reform coalition have incrementally transformed China from a control to a market economy.⁵ This gradual shift has avoided the destructive side effects seen in Eastern European nations attempting the "big bang" method of immediate

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¹ Deng has been the acknowledged leader of China since 1979 when he emerged with a dominant coalition of support within the Chinese Communist Party. See JONATHAN D. SPENCE, *THE SEARCH FOR MODERN CHINA* 653 (1990). He is one of the most reform-oriented leaders among the Mao-era generation of leaders. See *id.* at 640-41. His views incorporate a limited opening of China to the West for economic and technical benefits. *Id.*

² WILLIAM H. OVERHOLT, *THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER* 27 (1993).

³ See *id.* China's population is 1.2 billion people. Hamish McRae, *China's Long March Towards Economy Class*, *THE INDEPENDENT*, Feb. 1, 1994, at 17 (reviewing WILLIAM H. OVERHOLT, *THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER* (1993)). Put in perspective, China's population is roughly equal to the combined population of the European Economic Community, the former Soviet Union, Africa, and South America. OVERHOLT, *supra* note 2, at 83.

⁴ George Hicks, *INT'L HERALD TRIB.*, Dec. 22, 1993 (reviewing WILLIAM H. OVERHOLT, *THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER* (1993)) (quoting OVERHOLT), available in LEXIS, News Library, Current News File. In comparison, look at India with a population density similar to China. Yet, India continues to suffer from repeated economic failures. Overholt even makes the distinguishing analogy that India's failure resembles North Korea whereas China's success resembles South Korea. OVERHOLT, *supra* note 2, at 358-59.

⁵ Joyce Barnathan, *Letting China be China*, *BUSINESS WEEK*, Feb. 7, 1994, at 15 (reviewing WILLIAM H. OVERHOLT, *THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER* (1993)).

conversion.⁶ While significant controls still remain, there has been great progress with minimal harm to the population.⁷ Foreign trade has been liberalized,⁸ financial markets have been created,⁹ the gross national product (GNP) has grown exponentially,¹⁰ ties with neighboring nations have improved,¹¹ and arrangements have been made for the peaceful return of Hong Kong.¹²

Overholt's book is a comprehensive examination of post-1979 China from an economic perspective. It begins with a description of the transformation of China from a failed socialist-oriented control economy, comparing its progress to an array of other nations with similarly motivated modernization drives.¹³ Overholt then explains Deng's strategies of countering potentially threatening opposition with sustained efforts to "use the fruits of economic productivity to [appease] major sectors of the population."¹⁴ It is not surprising that Overholt, as a banker, briefly surveys the financial institutions and mechanisms necessary to establish an economy conducive to both domestic and foreign investors' needs.¹⁵ In addition, Overholt conducts a case study of the most prosperous region under Deng's reforms, the Guangdong Province, which is advantageously situated adjacent to Hong Kong.¹⁶ Overholt explains Guangdong's heavy interaction with Hong Kong as well as the ramifications of the 1997 British transfer of Hong Kong back to Chinese sovereignty.¹⁷ Finally, Overholt explores China's international goals and relations with other nations, particularly focusing on its relations with the United States.¹⁸

Part I will begin with a survey of insightful observations made by Overholt based on his substantial experience with Asian issues. Over-

⁶ OVERHOLT, *supra* note 2, at 46.

⁷ For example, China's gradual policy created rapid growth while keeping inflation under a tolerable 20 percent maximum as opposed to the 91 to 2,000 percent range encountered in Poland and the Soviet Union during their respective price liberalization efforts. *Id.* at 41-43.

⁸ *Id.* at 30.

⁹ *Id.* at 45-46.

¹⁰ *Id.* at 29-30.

¹¹ *Id.* at 321-22.

¹² *Id.* ch. V, at 249-312.

¹³ *Id.* at chs. I, II, 25-146. Overholt contrasts the Soviet Union's reform attempts under Gorbachev with Deng's reform methods, and likens Deng's reforms to those relatively successful ones made in the newly industrialized economies such as Hong Kong, Singapore, Taiwan, and South Korea. *Id.* at 32.

¹⁴ *Id.* at 87.

¹⁵ *Id.* at ch. III, 147-82.

¹⁶ *Id.* at ch. IV, 183-248.

¹⁷ *Id.* at chs. IV, V, 183-312.

¹⁸ *Id.* at chs. VI, VII, 313-416.

holt takes some stances that might be considered controversial to other Asian observers. Part II looks at the most apparent dissimilarities between Overholt's beliefs and the general consensus on China. This Part reveals differences in Overholt's assumptions that perhaps explain the contrasting views. Part III concludes with a recommendation of how readers should approach *The Rise of China: How Economic Reform is Creating a New Superpower*.

I. THOUGHT-PROVOKING OBSERVATIONS OF CHINA

China's dramatic economic progress is an extremely laudable accomplishment of which any nation would be proud. In fact, Overholt barely contains his enthusiasm in recounting the multiple instances of success. As managing director of Bankers Trust Company in the Hong Kong office since 1985, Overholt is well situated to intelligently assess China's business and political risks.¹⁹ He has lectured and spoken to major regional government figures such as the Governor of Hong Kong, Chris Patten.²⁰ In addition, he has studied under such renowned China and East Asian experts as Ezra Vogel at Harvard University and Herman Kahn at the Hudson Institute.²¹ He has advised Presidents Nixon and Carter on Asia and worked with Carter's National Security Advisor, Zbigniew Brzezinski.²² He has an enviable reputation for making accurate predictions on Asian and Soviet affairs, often well before they become conventional wisdom.²³ His analytical skills translated into savings of \$150 million for his employer when he advised Bankers Trust to pull out of Poland just prior to its economic collapse in the early 1980s.²⁴

Overholt's experience and knowledge have led to many thoughtful and insightful observations on China's progress. For example, his

¹⁹ See Sunny Goh, *Optimistic Picture of China's Future*, STRAITS TIMES, Dec. 11, 1993, at 39 (reviewing WILLIAM H. OVERHOLT, *THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER* (1993)).

²⁰ See OVERHOLT, *supra* note 2, at 288.

²¹ *Id.* at 417-18.

²² John Engen, *Bankers Trust's Man in Hong Kong Sees China on Path to Prosperity*, AM. BANKER, June 1, 1994, at 5.

²³ In the early 1970s, he predicted that the "rapid economic growth of smaller [Asian nations], if protected and nurtured, [would] save Asia from communism and change the world." OVERHOLT, *supra* note 2, at 420. Although this observation encountered ridicule at the time, the ensuing economic success of South Korea, Taiwan, Hong Kong, Singapore, and Thailand solidified Overholt's reputation as an Asian specialist. His 1976 policy paper with Brzezinski predicting the downfall of the Soviet Union added to his credibility. See Engen, *supra* note 22, at 5.

²⁴ Engen, *supra* note 22, at 5.

advocacy of gradual reform by an authoritarian government seems credible given the success of role models such as Taiwan or South Korea. In addition, Overholt's disdain for a rapid conversion of China to a democracy and market economy seems well placed given the negative outcome of modern Russia, the Philippines, and Latin America.²⁵ Deng's policy to reform China's control economy in incremental steps seems to have worked with minimal detractions. Beginning with large scale decollectivization, Deng's agricultural reform effort quickly improved economic conditions for the bulk of China's population—its 800 million peasants.²⁶ Deng then allowed the existence of small entrepreneurs.²⁷ Finally, he promoted the heart of his reform strategy: seeking foreign investment and technology as a modernization strategy to allow China to catch up quickly to its more affluent neighbors.²⁸

Meanwhile, political liberalization, as a natural extension of economic success, steadily progressed. Overholt suggests that China is on track to repeat the eventual evolution from an "authoritarian" regime to a democratic economic success as enjoyed by South Korea or Taiwan.²⁹ In the interim, Overholt urges patience from China's critics; the long-term benefits will include political liberalization and will justify toleration of China's current human rights abuses.³⁰

The proposition that China has forsaken geopolitical, ideological concerns and support of world insurrection in its single-minded quest for pragmatic economic success seems credible given the accompanying statistics.³¹ China's well-publicized arms sales to renegade nations

²⁵ Overholt's rationale is that democracy or a full market economy would not give an enlightened government the power needed to achieve substantive reforms. See OVERHOLT, *supra* note 2, at 122–23. A government requires strength to establish important measures such as vital institutions, a liberalized economy, and an educated middle-class. *Id.*

²⁶ This effort generated large-scale increases in productivity and living standards. Barnathan, *supra* note 5, at 15. World Bank statistics demonstrate the magnitude of the reforms. Since 1978, a total of 170 million people have risen from absolute poverty, which is a 60 percent decline in the number of poor. Nicholas D. Kristof, *China's Rush to Riches*, N.Y. TIMES MAG., Sept. 4, 1994, at 46, 54.

²⁷ Barnathan, *supra* note 5, at 15.

²⁸ See *id.*

²⁹ See OVERHOLT, *supra* note 2, at 100–01. Overholt cogently argues that the economic success in these countries has led to a peaceful transition to full democracy and that China is continuing in this pattern. *Id.* Political reforms often are not begun by shifts in government policies, but rather by the changes in social structure that accompany economic reform (e.g., increased expectations, disposable income, exposure to Western culture and ideas, and decentralization of decision-making). *Id.* at 137–39.

³⁰ See *id.* at 399–400.

³¹ Military expenditure was reduced from 10.4 percent of gross national product at the beginning of Deng's reform in 1979 to 3.7 percent in 1989. In comparison, the United States spent about 6 percent of gross national product on the military throughout the 1980s. *Id.* at 340.

such as Iran and Syria are probably attributable more to the need for cash than to any sinister plot to destabilize the world.³² China's notorious reputation as an arms exporter is distorted by the phenomenon that its customers buy from China only when other more modernly equipped nations will not sell.³³ Traditionally a strong champion of the "Third World movement," China has increasingly moderated its international rhetoric and efforts on behalf of these other countries.³⁴ Ironically, as China has deemphasized its geopolitical ambitions, its rising economic strength, accompanied by the relative decline of its neighbors, has accorded China "a geopolitical position superior to anything China has experienced in several centuries."³⁵ This is partly due to the paradox of Asian development highlighted by Overholt: "[h]e who forgoes military ambitions gains in prosperity and power."³⁶ However, this phenomenon is assisted by the enormity of China's size. It has already become the third largest economy in the world, and the World Bank predicts it will undoubtedly surpass the United States and Japan to become the largest.³⁷ Needless to say, tremendous clout comes with this position.

³² Overholt suggested that the United States should perhaps first scrutinize its own behavior before questioning Chinese arms sales. *See id.* at 370–71. After all, while the United States vocally complained about the sale of Chinese Silkworm missiles to Iran, it was itself secretly selling missiles to Iran. *Id.* Additionally, Third World arms transfer agreements in 1991 totalled \$14.1 billion from the United States, but from China, only \$300 million. *Id.*

³³ *Id.* at 369. China's arms sales to Iran or Syria may appear particularly egregious. *See id.* at 374. However, when considering the improved nature of the transferred technology, Western nations have also been guilty of similar, or perhaps worse practices. *See id.* Examples range from the French sale of nuclear technology to Pakistan to the German sale of chemical warfare technology to Libya. *See id.*

³⁴ Generally speaking, the Third World movement refers to the battle between the North and South countries, the rich versus the poor, and the developed nations against the developing nations. *See id.* at 332–37. China, with its communist radicalism and twenty percent of the world's population, was a significant ally of Third World "pauperism." *Id.* Its shift towards more pragmatic policies in 1979 decisively contributed to the declining strength of the Third World's moral, political, and economic arguments with respect to the Western developed nations. *Id.* at 336–37. Not only has China abandoned its support of Third World nations, but it has also abandoned its multi-faceted support of international revolutionary movements in countries such as Malaya, Thailand, the Philippines, Burma, Indonesia, and India. *Id.* at 322–23.

As China becomes more prosperous, it has begun to share more common interests with developed nations, thus leaving its ideological brethren behind. *See id.* at 332–37.

³⁵ *Id.* at 363.

³⁶ *Id.* at 344. This paradox has already been demonstrated by Japan, Thailand, and South Korea. China has formidably solidified its power, such that "for the first time since before the Opium War, China faces no threat to its territorial integrity or national survival," and its international influence continues to rise. *Id.* at 344–45.

³⁷ Kristof, *supra* note 26, at 54. Given the current statistics, it is not hard to envision China eventually surpassing the United States as the world's largest economy. McRae, *supra* note 3, at 17. Its population is 1.2 billion, compared to the United States' 250 million, and the growth of

Overholt's argument in opposition to recurring United States' threats to deny the renewal of Most Favored Nation (MFN) trading status to China for human rights violations seems sensible. Denial of MFN is such a drastic action that it would effectively expel China from the free trade system.³⁸ The harm to the United States economy would also be severe.³⁹ With such serious repercussions, Overholt believes that the United States should not keep threatening China. Overholt observes that invocation of the MFN threat by successive American presidents is more a function of domestic political posturing than a substantive policy rationale.⁴⁰ As such, it is a hollow and ill-conceived threat that Overholt thinks is insulting and unnecessarily antagonistic to a country with the size and influence of China.⁴¹ Overholt feels it would even be counter-productive to the United States' goal of improved human rights, as it would reinforce the more conservative hardliners in China who would cite the revoking of MFN as yet another example that China should not be too open to the West.⁴² The fact that only six out of 160 nations have been subjected to MFN revocation is indicative of its extremely rare use.⁴³

II. PROBLEMATIC FACETS OF DEVELOPMENT

Overholt takes such a positive view of China's successes and economic efforts that important concerns are either downplayed or ig-

its GNP has averaged ten percent per annum for the last ten years, compared to the United States at three percent. *Id.* The World Bank estimated that Greater China (an area that includes China, Taiwan, and Hong Kong) will have a gross domestic product of \$9.8 trillion in 2002, compared to \$9.7 trillion for the United States in the same year. Kristof, *supra* note 26, at 54.

³⁸ OVERHOLT, *supra* note 2, at 391-92. Overholt believes the repercussions would not be serious for most of China because so much of it is not dependent on foreign exports. *See id.* It would be primarily the export-oriented regions such as the Guangdong and Fujian Provinces that would be especially hit hard. *See id.* Additionally, losses might be greatest in dependent Hong Kong (estimated to be \$2,000 for each of its six million residents), and Taiwan, due to its utilization of China as a manufacturing platform. *Id.* at 392. In the period between 1979 and 1992, Hong Kong and Taiwan accounted for 57 percent of the foreign investment in the Guangdong Province, with 11 percent from Japan and 9 percent from the United States. *Hong Kong-Investment Gateway to China*, INSTITUTIONAL INVESTOR, July 1994, at S2.

³⁹ OVERHOLT, *supra* note 2, at 393-94. Since MFN is reciprocal, the loss of United States exports to China would result in a loss of over 100,000 United States export-oriented jobs. *Id.* at 394. Additionally, the credibility of United States world leadership would be severely tested, as no other Western nation would follow the United States' isolation of China. *Id.* at 393.

⁴⁰ *Id.* at 398. In a speech at the Hong Kong General Chamber of Commerce, Overholt stated: "[the United States] never want[s] to take away MFN. They just want to threaten. They think they will get a lot by threatening." *Market Spotlight: Nikkei Ahead After Fears of Plunge Fade*, S. CHINA MORNING POST, Nov. 17, 1993, at 10.

⁴¹ *See* OVERHOLT, *supra* note 2, at 390-98.

⁴² Engen, *supra* note 22, at 5.

⁴³ The six nations that have been deprived of MFN status are members of an international

nored. One critic noted, "Overholt's book elevates the notion that stability, economic development and business profits should always take precedence over personal freedom."⁴⁴ So long as economic reforms continue to succeed, Overholt discounts or rationalizes as secondary other seemingly significant problems. Not since John Fairbank's glossing of the Cultural Revolution in 1972 has there been such an unabashedly optimistic writing about China.⁴⁵ Apparently not wishing to dampen the reader's excitement over China's economic accomplishments, Overholt takes a decidedly pro-Deng stance.⁴⁶

Moreover, any intelligent discussion of modern China cannot occur without at least some recognition of the enormous impact of the Tiananmen Square incident. Overholt, however, does not accord the Tiananmen incident its historical impact, dismissing it as "... a minor bump in the road toward prosperity and, eventually, democracy."⁴⁷ Yet, Tiananmen was a culmination of existing problems with China's ruling system.⁴⁸ It was a watershed event that drastically impaired the image of China's government in the eyes of China's people and the international community.⁴⁹ By de-emphasizing the root causes that led to Tiananmen, Overholt inadequately addresses systemic problems that persist in China.⁵⁰

The importance of the Tiananmen Square incident merits a brief description. The event occurred on June 4, 1989 in Tiananmen Square, Beijing, when an estimated 700 student demonstrators were callously killed by well-armed soldiers of the Chinese Army.⁵¹ The demonstrators were advocating greater freedom of expression to en-

outlaw community to which China clearly does not belong. OVERHOLT, *supra* note 2, at 391. As of 1992, they were: Cambodia, Cuba, Laos, North Korea, Romania, and Vietnam. *Id.*

⁴⁴ Hicks, *supra* note 4.

⁴⁵ See, e.g. Hicks, *supra* note 4; Jonathan Spence, *From Stone Age to Tiananmen Square*, N.Y. TIMES, May 24, 1992, § 7, at 2 (reviewing JOHN FAIRBANKS, CHINA: A NEW HISTORY (1992)) (Fairbanks was quoted as saying the Maoist Revolution is on the whole the best thing that happened to the Chinese people in many centuries).

⁴⁶ One critic, George Hicks, even likens Overholt's book to being a better written version of an official account by the Chinese government. Hicks, *supra* note 4. He argues that Overholt goes beyond the "usual pro-Beijing line taken by Hong Kong big business and China traders . . . [for at least they] preserve[d] a modicum of cynicism." *Id.*

⁴⁷ Arnold R. Isaacs, *China Inc.*, N.Y. TIMES, Nov. 28, 1993, § 7, at 23 (reviewing WILLIAM H. OVERHOLT, THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER (1993)).

⁴⁸ See generally Gerrit W. Gong, *Tiananmen: Causes and Consequences*, 13 WASH Q. 79, 84 (1989).

⁴⁹ *Id.*

⁵⁰ The following concerns are examples of neglected issues: nationalism, self-determination, protectionism, succession struggle, rising inequality, and trade antagonisms. *Id.*

⁵¹ SPENCE, *supra* note 1, at 742-43.

able economic and scientific progress for the country as a whole.⁵² These abstract demands for democracy were rooted in widespread disenchantment with the structure of the current economic reforms.⁵³ Three primary issues were at the core of the students' complaints: 1) the ability to choose their jobs rather than following government dictates, 2) the widespread corruption and nepotism of government and party bureaucrats, and 3) the high rate of inflation that seriously eroded buying power.⁵⁴ Overholt acknowledges the existence of these serious problems but does not seem to place as much emphasis on their resolution as do the Chinese people. In addition, the Chinese government's repressive response at Tiananmen signified the Chinese leadership's belief that:

economic reforms could be completely divorced from the immensely complex social and cultural effects that the reforms brought in their train. . . [threatening] to commit the government again to the nineteenth-century fallacy that China could join the modern world entirely on its own terms, sacrificing nothing of its prevailing ideological purity.⁵⁵

Five years after Tiananmen, the structural problems that sparked it still continue and arguably have worsened. Job opportunities are uneven and regionally determined, corruption and nepotism have worsened, and inflationary cycles continue to persist.⁵⁶ The rural and urban disparity continues as the country lacks the investment to correct the imbalance.⁵⁷ The future prospect of massive unemployment appears unavoidable as Deng must eventually overhaul the extremely inefficient state operations which account for 150 million redundant workers and the 50 million more anticipated by the end of the century.⁵⁸ Corruption, kickbacks and graft have spread to officials at all levels to such an extent that foreign businesses recognize it to be a standard cost of doing business in China.⁵⁹ Those that were the targets

⁵² *Id.* at 738.

⁵³ *See id.* at 733-37.

⁵⁴ *See id.*

⁵⁵ *Id.* at 745-46.

⁵⁶ *See* Richard Hornik, *The Middle Kingdom? Bursting China's Bubble*, 73 FOREIGN AFFAIRS, May-June 1994, at 28, 31-37.

⁵⁷ *See id.* at 35-36. In 1993, farmers' net income was \$87 while it was \$204 for urban workers. *Id.* Agricultural output only grew four percent as industrial output grew twenty percent. *Id.*

⁵⁸ *See id.*

⁵⁹ Catherine Field, *Spirit of the Wild West Lives on in the Shimmering East*, THE TIMES (London), Aug. 23, 1994, at 25. Within the first four months of 1994, there were 19,000 economic crimes which included 12,000 bribery and corruption cases. *Id.* Liang Guoqing, deputy procura-

of the student protestors' charges of nepotism during Tiananmen have become China's new aristocracy, often referred to as the "red princes or princesses," or the "princelings."⁶⁰ They are the middle-aged sons and daughters of China's octogenarian ruling generation.⁶¹ They have used their social connections and status to prosper disproportionately under China's economic reforms.⁶² They are the ones with an interest in a loose monetary system.⁶³ Partly due to their influence and also due to the central government's inability to control the various provincial governments, China is unable to impose fiscal and monetary discipline in a consistent manner.⁶⁴ Thus, the cycles of inflation continue, the budget deficit grows exponentially, and capital flight worsens.⁶⁵

While Overholt recognizes the harmfulness of these sobering trends, he seems to downplay their effect more than other experts. He disputes the 200 million underemployed or unemployed figure as unreliable and presents a different view to explain the numbers.⁶⁶ He acknowledges that the inefficient state sector accounts for huge deficits, but advocates only gradual privatization because he believes that the disruption that would undoubtedly accompany an abrupt conversion would be much worse.⁶⁷ He downplays the effects associated with the cycles of inflation.⁶⁸ Regarding the influence of the "princel-

tor-general said, "[officials] use their power to blackmail, demand bribes, embezzle and pursue private interests." *Id.*

⁶⁰ Field, *supra* note 59, at 25; Peter Goodspeed, *China's 'Princelings' the New Hong Kong Elite Children, Relatives of Chinese Officials Control the Top Jobs*, TORONTO STAR, June 12, 1994, at C5.

⁶¹ Goodspeed, *supra* note 60, at C5.

⁶² *Id.* These "princelings" represent the most public intertwining of political power and economic interests as they are highly sought after by foreign businesses hoping to benefit from their connections. *See id.* A Hong Kong periodical claims a secret Chinese report estimates that the children or close relatives of 1,700 top Chinese officials control 3,100 of China's top government and military positions with an additional 900 close relatives operating China's major trading companies. *Id.*

⁶³ *See* Hornik, *supra* note 56, at 29-30.

⁶⁴ *See id.*

⁶⁵ *See id.* at 30-35. China's Finance Ministry projects the 1994 budget deficit to triple to \$7.7 billion while others estimate it to be \$14.8 billion. *Id.* at 31. Inflation averaged 30 percent in urban areas. *Id.* at 36. A large percentage of the profits made by the "princelings" and others are being invested outside of China, with well over \$1 billion being spent on Hong Kong real estate alone. *See id.* at 33.

⁶⁶ *See* OVERHOLT, *supra* note 2, at 76-79. Overholt claims that policies founded on socialism and protectionism foster large bureaucracies that are actually disguised unemployment because each firm becomes a miniature welfare state. *Id.* He states that Deng's reforms are ironic in that they have exposed and focused negative attention on this disguised unemployment, but at the same time the growing economy has accounted for an increase in employment coupled with a higher standard of living. *Id.*

⁶⁷ *Id.* at 64.

⁶⁸ *Id.* at 60-62.

ings” and the general atmosphere of corruption, Overholt believes that it is simply a phase that will pass.⁶⁹

Overholt continues to profess that China will eventually become democratic despite the lack of active efforts by the Chinese government to make this a reality.⁷⁰ Given China’s relatively large size, Overholt’s theory of eventual political liberalization akin to Taiwan or South Korea appears misguided.⁷¹ Even after Tiananmen demonstrated the Communist Party’s clear willingness to use force to preserve its power, Overholt continues to maintain that the Communist Party is only a temporary, albeit necessary, phenomenon.⁷²

Overholt’s comparison of China to smaller Asian countries such as Taiwan or South Korea also proves inadequate when assessing the viability of economic reforms. Most small Asian countries, including Japan, achieved economic success with military or historical links to either the United States or Britain.⁷³ This protective security was complemented by an export strategy to the waiting markets of their receptive benefactors.⁷⁴ There are three primary bases for distinguishing China. First, the Chinese economy is so immense that other countries cannot absorb the amount of potential goods that it could produce; thus, its “economic expansion will have to be internally driven, and will almost certainly move more slowly as a result.”⁷⁵ Second, since strategic reasons motivated the West’s prior boosting of other Asian nations, Western markets are certainly not as receptive to an “independent” China’s products or its unfair trade practices.⁷⁶ Third, while

⁶⁹ *Id.* at 80–81. Overholt further contends that other economically successful Asian nations, such as South Korea and Taiwan, passed this phase and that market economic efficiency theory dictates that corruption cannot go on indefinitely. *Id.* He believes China’s “princelings” are not nearly as bad as the friends and relatives of the Marcos family or the Suharto family, in the Philippines and Indonesia respectively, each of which had gained family monopolies of their nation’s major enterprises. *See id.* at 81.

⁷⁰ *See id.* at 399–400.

⁷¹ It is not difficult to see that in a country of 1.2 billion people, the demonstrations of thousands of students in Beijing would affect the rest of China relatively less than a similar student demonstration in Seoul might affect the rest of Korea with its population of only 43 million. *See* McRae, *supra* note 3, at 17. In South Korea, demonstrations have occurred consistently since 1960, resulting in the government’s eventual democratization. However, the Chinese government has quickly crushed major demonstrations and restricted information disseminated to the outer provinces. *See* SPENCE, *supra* note 1, at 743 (noting in the wake of Tiananmen, the government quickly cut off the flow of information, both domestically and internationally).

⁷² Isaacs, *supra* note 47, at 23.

⁷³ McRae, *supra* note 3, at 17.

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ *Id.* *See* Louis Kraar, *Big Dreamers and Wild Schemers*, FORTUNE, Dec. 13, 1993, at 190 (reviewing WILLIAM H. OVERHOLT, *THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A*

other Asian countries have managed to raise the living standards of their people with rough economic parity, China has shown much greater polarization.⁷⁷

Similarly, Overholt enjoys comparing and upholding the superiority of China's reform efforts to the Gorbachev-type reforms in the Soviet Union or the "big bang" approach taken in post-communist Eastern Europe.⁷⁸ Such a comparison is premature and fails to highlight important differences between these nations. Gorbachev, as Overholt implies, never had Deng's institutional support, control, or credibility.⁷⁹ Unlike China, the Soviet Union was primarily urban.⁸⁰ Although Gorbachev failed with agricultural initiatives, it was actually his inability to reform the massive state industries that led to his undoing.⁸¹ Desperation drove him to attempt political liberalization before fundamental economic reform.⁸² Meanwhile in China, Deng's successful reform of the countryside appeased 800 million of China's 1.2 billion people.⁸³ Contrary to conventional wisdom, China still has not undertaken the reform of the massive and inefficient state industries that led to Gorbachev's undoing.⁸⁴ Therefore, despite Overholt's repeated praise for China's efforts, perhaps his praise should be reserved until China successfully undertakes major structural reform. Meanwhile, in order to stay operational, China's state enterprises continue to require large governmental subsidies.⁸⁵

NEW SUPERPOWER (1993)). China will need other countries to be receptive to its products. This means that it will have to balance its objectives with reasonable demands of other nations. Charles Powell, *The Next Great Marketplace? Charles Powell on the Implications of China's Booming Economy*, SUNDAY TELEGRAPH, Jan. 16, 1994, at 11 (reviewing WILLIAM H. OVERHOLT, *THE RISE OF CHINA: HOW ECONOMIC REFORM IS CREATING A NEW SUPERPOWER* (1993)).

⁷⁷ Isaacs, *supra* note 47, at 23. In general, the coastal areas have benefited over the interior regions, the South has grown more than the North, and individually there has been great disparity in economic success. Raw economic data indicate this disparity: 520 of China's 1,903 counties have an annual income of below \$35 per capita, as compared with a national average estimated at \$1,500 to \$1,800 per capita, per year; per capita GNP ranges from a high of \$519 in Guangdong Province to only \$164 in Guizhou Province; and personal accounts of individuals with outrageous wealth exist in sharp contrast to the many government workers on fixed salaries. OVERHOLT, *supra* note 2, at 26, 52, 90, 103.

⁷⁸ See OVERHOLT, *supra* note 2, at 32-34, 46.

⁷⁹ Barnathan, *supra* note 5, at 15.

⁸⁰ *Id.*

⁸¹ *Id.*

⁸² *Id.*

⁸³ *Id.*

⁸⁴ See *id.*

⁸⁵ *Id.* As of 1992, the state sector employed 75 percent of China's urban labor force but accounted for only 50 percent of China's industrial production. Gerrit W. Gong, *China's Fourth Revolution*, 17 WASH. Q. 29, 34 (1994). Such a disparity indicated severe under-employment. Although losses that these enterprises absorb are hidden and understated, the general consensus

A final criticism of Overholt's book focuses on his assertion that the emerging winners of a post-Deng succession struggle for leadership would be authoritarian modernizers (such as the followers of Zhao Ziyang and Hu Yaobang),⁸⁶ rather than the bureaucratic socialists led by current Premier Li Ping and President Jiang Zemin, Deng's designated successor.⁸⁷ To most observers, however, this result is not as clear as Overholt implies.⁸⁸ Not only is the Zhao faction currently in official disrepute and the Li faction unpopular with the people due to their role in the Tiananmen Square crackdown, but there remain two figures from Deng's generation who exude tremendous influence.⁸⁹ If the currently favored Li or Jiang gain control, they will continue reforms but it will be at a slower pace than Zhao or even Deng would prefer.⁹⁰ Considering Li's role in crushing the Tiananmen demonstrations, his control would probably delay the achievement of the political freedoms that Overholt predicted. Moreover, there is always the probability that the Maoist radicals that caused the destructive Cultural Revolution could regain some modicum of influence, despite Overholt's cursory dismissals to the contrary.

III. CONCLUSION

Overholt has written an enormously well-contemplated and interesting account of the rise of modern China. He makes insightful observations that capture many relevant aspects of the fifteen-year period of Deng's ambitious reforms. He demonstrates an almost intui-

is that one-third of China's 10,000 state companies were profitable, one-third were border-line insolvent, and one-third suffered from large hidden losses. *Id.*

⁸⁶ See OVERHOLT, *supra* note 2, at 91-102. Aside from Zhao, often grouped within this moderate category are Wan Li, a former parliamentary chief and Qiao Shi, a former security chief who now heads the National People's Congress. Patrick E. Tyler, *In the Twilight of Deng, China's Rising Stars Jostle*, N.Y. TIMES, Aug. 21, 1994, § 1, at 3.

⁸⁷ OVERHOLT, *supra* note 2, at 98; Tyler, *supra* note 86, at 3. The fact that Jiang is currently Deng's chosen heir is not as defining as it would seem given that Mao's designated successor, Hua Guofang, was overthrown by a then disfavored Deng in less than three years in December 1978. SPENCE, *supra* note 1, at 675-77.

⁸⁸ See, e.g., Tyler, *supra* note 86, at 3; Isaacs, *supra* note 47, at 23. This is especially true, considering both Zhao and Hu were put into official disfavor for their encouraging of the students' call for democracy and advocating reform at a pace that raised the risk of inflation, social ferment, and ideological heresy. See OVERHOLT, *supra* note 2, at 97-98.

⁸⁹ Tyler, *supra* note 86, at 3. One, Chen Yun, an economist, is anti-American and would undoubtedly align with the Li or Jiang faction. The other is Yang Shangkun, who is relatively more reform oriented and pro-American. *Id.*

⁹⁰ *Id.* In early 1992, Deng challenged Li's plan for 6 percent growth as inadequate and called for a 10 percent plan. *Id.* While Deng retains influence now, he has just turned ninety-years-old in August 1994; once he dies, there will be no one of his stature to prompt Li to quicken reform. See *id.*

tive ability to decipher the critical phases of China's reform, both domestically and as it affects the international community. His section outlining the macro-economic requirements for reform such as the development of capital markets is informative for readers who may lack his banking background. The recounting of key details of the transfer of Hong Kong and the post-agreement political posturing by both the British and Chinese gives the reader an "insider view" of the process. His summation with an overview of United States-China relations echoes the book's pervasive message that China has indeed become a world force to be reckoned with on equal terms.

However, some of Overholt's observations are phrased in such a pro-China tone that they do not give an otherwise uninformed reader an objective view of China's reforms. The topic that Overholt addresses is so complex that it invariably requires heavy editing to distill it to an understandable medium. Perhaps due to this effort to condense and convey the subject matter, Overholt makes some rather broad assertions and weak analogies that are at best misleading, and at worst inaccurate. While Overholt remains extremely optimistic about the future course of China's economic modernization goals and eventual political reform, most expert observers are far more cautious. Then again, Overholt has an unblemished track record for making bold predictions that are contrary to conventional wisdom. Nevertheless, Overholt's account of China's reforms probably should be read with a more critical eye toward China than is presented by the author, in the event that his rosy predictions do not materialize.





