

NOMINATION COVER SHEET
2008 Virginia Outstanding Faculty Awards

1. <u>NAME</u>	
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Institution: Old Dominion University	Academic Discipline: Management
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Please check only one box

RESEARCH/DOCTORAL INSTITUTION NOMINEE:

MASTERS/COMPREHENSIVE/BACCALAUREATE INSTITUTION NOMINEE:

TWO-YEAR INSTITUTION NOMINEE:

RISING STAR NOMINEE:

TEACHING WITH TECHNOLOGY NOMINEE:

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President or Chief Academic Officer

Signature: 

Printed Name: **Thomas L. Isenhour, Provost**

Mission Statement

Old Dominion University

The Mission of Old Dominion University is as follows:

“Old Dominion University promotes the advancement of knowledge and the pursuit of truth locally, nationally, and internationally. It develops in students a respect for the dignity and worth of the individual, a capacity for critical reasoning and a genuine desire for learning. It fosters the extension of the boundaries of knowledge through research and scholarship and is committed to the preservation and dissemination of a rich cultural heritage. Old Dominion University is old enough to value tradition yet young enough to facilitate change. In a spirit of creative experimentation, innovation, and technology, the University is ready to meet the challenges of the twenty-first century.”

The Mission Support section of the mission statement describes in detail the principles and practices that underlie the University’s undergraduate and graduate teaching, research, and service missions: a sound general education program; critical thinking; diversity; academic freedom; serving the needs of the local, national, and international communities, including military members and their families; and collaborating with government, industry, and alumni. Finally, the Major Goals of the University are described under the following headings: Students; Faculty; Academic Programs; Teaching; Research, Scholarship and Creativity; Distance Learning; Lifelong Learning; Community Service; Student Life; Alumni; and Quality.

A complete statement of the Old Dominion University mission may be found at:
<http://www.odu.edu/ao/affairs/catalog/catalog.htm>

Summary of Accomplishments

Teaching

When asked to comment on Dr. Shaomin Li as a teacher, colleagues use the following phrases to describe him: “passionately committed to his students” and “generous”; and his students call him “friend,” “colleague,” and “great mentor;” “a professor who really cares about his students.” All these fit Dr. Li well. If there is one thing that makes Dr. Li’s teaching stand out, it is his ultimate concern for the lifetime achievement of students.

His students are familiar with his famous advice of “look forward, reason back” strategy, which asks them to look forward to figure out what they want to do for their life, and reason back to prepare themselves step by step.

Dr. Li is known for his passion about teaching. “It is not merely a job for me; it is an enjoyment, a hobby for me,” Dr. Li said. “Through my interaction with the students, I want to infect them with my passion to teach and foster their passion to learn. My goal in teaching is to make an indelible imprint on my students so that 10 or 20 years after they graduate, they will still value what they learned from me.” Dr. Li has certainly lived up to his inspiration.

Students who take Dr. Li’s classes are infected by his enthusiasm for teaching; it is a recurring comment in students’ evaluation, such as “The instructor was very enthusiastic about the subject.” “I like that Dr. Li is an extremely enthusiastic professor. ”Very enthusiastic about teaching!” Lee-Hsien Pan, a former student of Dr. Li, wrote: “He would get very excited in explaining a point, and has the ability to bring an abstract concept, such as the legal system, alive, as if we were in a court debate.”

Dr. Li teaches international business, a subject that not only integrates a wide range of social and administrative theories, but also requires extensive practical experience – real-world experience in international business. A teacher’s firsthand experience is especially useful to help students understand the trade and investment patterns in developing countries, where laws and regulations are opaque and business practices are shielded from outsiders.

Professor Li’s rich business experience enables him to shed light on how international trade and investment are actually conducted. He served as a director at AT&T in charge of developing the East Asian market, founding CEO of an Internet firm in Hong Kong with two subsidiaries in China, and adviser to a number of multinational firms. Using these real world experiences, Dr. Li explains to the students the pitfalls of doing business in foreign countries. The following sample comments from his students illustrate this aspect of his teaching:

“Dr. Li made the class interesting because he applied his real life experiences in international business to what the text book said. This helps me understand and relate to all aspects of international business easier. Dr. Li went over with us any item we didn't understand; Dr. Li always had time for his students. Dr. Li's an excellent instructor.”

“His vast knowledge, his never ending assortment of practical examples, and his enthusiasm really pulled me into the subject. He strongly encouraged critical thinking and class participation.”

“I really enjoyed this class and I think his practical experience in international business added to his effectiveness. He has a lot of experience with the matter he teaches. He

has done a lot of things to enhance his teaching ability, so he is able to relay what he has learned himself hands on.”

Dr. Li believes that having firsthand experience from traveling and living in foreign countries substantially enhances the student learning experience. In addition to his experience as a business executive that brought him to many countries, he takes the initiative to systematically visit and live in foreign countries to “recharge and to enhance my teaching,” as he puts it. Since joining ODU, he has resided in Korea and in Taiwan, which greatly enriched his teaching. Jane Martin, director of the Institute for Learning in Retirement (ILR), to which Dr. Li regularly contributes time, told him that his international residences provide “a wonderful opportunity for your students, you and maybe even the ILR folks!”

Professor Li also believes that a good teacher should be a role model for the students. He uses his own experience to inspire my students’ ambitions and to build their confidence to learn. When he lived as a child in China, Mao Tse Tung drove his family to the countryside and he grew up without a formal education. Against all odds, he completed his pre-college education through self-learning and passed a nationwide college entrance examination with the highest score in his region. His experience has motivated many of his students.

Dr. Li recalls one advising session when a student complained that his potential was limited because ODU was not an Ivy League school and that he had lost interest in study for lack of challenge here. Dr. Li urged him to set up a goal beyond the school requirement and go for it. The student replied, “Dr. Li, it is easy for you to say so since you have gone to all the prestigious schools.” Professor Li countered: “But do you know that my formal education was third grade before college? I was sent to a farm when I was 13 and taught myself.” The student, quite surprised. Replied: “Dr. Li, now I know what I need to do!”

Most important of all, Professor Li cares about his students and puts their careers as a high priority in his teaching and mentoring. His motto is “treating undergraduate students as graduate students, and graduate students as junior faculty members.” Many of Dr. Li’s students can testify to this. Darryl Samsell, a former student and assistant professor at Guilford College, writes that “[Dr. Li] always treated us as upcoming faculty members...he is one of the few professors to actively participate and collaborate in research with his students.” Lee-Hsien Pan, another former student, says that Dr. Li “always puts students’ career development above everything else without hesitation.”

In his seminar on international business for all the doctoral students in ODU’s College of Business and Public Administration, Li sets the bar high – requiring the first-year Ph.D. students to write a publishable research paper. One of the papers was accepted by the Academy of International Business, the most prestigious academic organization in international business. Li also co-authored several papers with students that are currently under review by high-quality journals.

For example, when he asked Judy Wu, a graduate student assigned to work as his research assistant, to run some statistical tests and found that she did an excellent job; he included her as a co-author on the project. The resulting paper was published at the *Far Eastern Economic Review*, an opinion leader in international political economy.

Soon after he joined ODU, Dr. Li realized that many students, especially international students, would spend their holidays alone. He began to invite all the first-year Ph.D. students to his home for Thanksgiving dinner. He often invites students to his home, along with faculty

members. In the past four years, he has hosted more than a dozen gatherings in his home for students. These “social” occasions extend the classroom to form strong professional relationships and provide students with informal education about the profession they’ve chosen.

The breadth and depth of his academic interests and accomplishments often result in his being invited to serve on doctoral dissertation committees outside the business school. He has served on three dissertation committees in the College of Arts and Letters’ international studies program.

Discovery

Dr. Li is one of the leading scholars in international business studies and has published several articles in the *Journal of International Business Studies*, the most prestigious publication in the field. Based on a survey of publications from 1995 to 2005 in the top-tier journals in international business, conducted by a research group at Michigan State University, the host of the Academy of International Business, Dr. Li is among the 89 “most prolific scholars” in the world in his field.

Since joining ODU in 2002, Dr. Li has had 28 research articles published or accepted for publication in leading business journals, including four journals in *The Financial Times’* Top 40 list (*California Management Review*, *Harvard Business Review*, *Journal of International Business Studies* and *Management International Review*).

As Dr. William Judge, an endowed chair and professor at ODU and editor-in-chief of *Corporate Governance*, commented, publications by Dr. Li in the top-tier international business journals “give enormous exposure to the university and the college of business due to their very high citation rates and very selective publication standards.”

Professor Li always tries to tackle issues in his research that have a significant impact on business and society, and to discover a theoretical relationship among these important concepts that challenges conventional wisdom and common sense. His guideline for choosing a research topic can be summed up as “non-trivial, not obvious.” For example, in international business, he focuses on the global environment of business, including the political, legal, economic and cultural institutions that affect business activities across countries.

His main contribution to international business research is that he and his co-authors first introduced a framework of governance environment, which can classify all the countries in the world based on the political, economic, and social institutions that facilitate or constrain how investors govern their business activities in a country. “For instance, in a country with strong rule of law, people rely on court to resolve disputes,” Dr. Li says, “whereas in countries in which judges are corrupt and partial, people settle disputes through private means, such as kidnapping.” Based on this framework, he and his coauthors coined a pair of terms to describe the two major types of societies in the world: *rule-based* and *relation-based* societies. Dr. Li shows that all societies evolved from relation-based to rule-based governance and the conditions that developed under which each of them can become efficient.

This framework explains why Asians, especially the Chinese, rely on personal connections (relation-based) to govern business activities. This is not primarily because of their cultural heritage, as commonly believed, but rather, it is due to the lack of a fair, transparent and efficient legal system in Asian societies. Dr. Li further shows that when the scale and scope of business activities are small, the relation-based governance has the advantage of saving the

huge cost of developing a public legal infrastructure, and contributes to the rapid economic growth in Asia. When business activities increase in number and extend across borders, the relation-based governance system will lose its cost advantages and must transform into the rule-based system, as practiced in all advanced economies. But the transition is difficult and risky. As Dr. Li terms it, the transition is the “greatest leap forward” for the relation-based countries such as China.

The study provides a succinct, accurate, and useful model to understand what appears to be a random and chaotic mix of governance systems in the world. As a result, the study has been well received by the international business community. *The Economist*, the opinion leader in international business and political economy, featured Dr. Li’s framework in 2000 and 2001.

Using this framework, many phenomena that were previously difficult to explain, such as why countries with poor legal systems (i.e., relation-based) attract a relatively large amount of foreign direct investment can be clearly and logically explained. Dr. Li is the first to show that compared to foreign portfolio investment (such as buy a few shares of stocks of a listed company), foreign direct investment allows the investor to have more direct control and thus rely less on public legal protection. This finding is significant for both theoretical and practical reasons. It has not only cleared the misconception that “good governance environment begets foreign investment,” but also provided practical guidance on how to protect investment in relation-based countries.

This study has drawn international attention. In 2004, *The Financial Times* online journal, *fDi ForeignDirectInvestment*, featured Dr. Li’s study on governance environment and foreign investment. He has been invited to universities (University of New Mexico and Colgate University) and international conferences (e.g., Academy of International Business) to present his results. In 2007, his findings were published in the *Journal of World Business*.

Another contribution he made is a study of business environment and firm performance in China. Using game theory, Dr. Li and his co-authors first explained why and how privatization spreads in China despite the official communist ideology and a policy that discourages private ownership. He showed that market competition does not only efficiently allocate resources, but also creates new institutions such as the market economy.

Recently Dr. Li has developed a new theory on corruption to explain why some countries, such as China, thrive despite corruption. Using cases and statistical data, he shows that in societies in which an extensive informal social network exists and trust extends far beyond family and friends because of the thick social network, corruption can actually be more efficiency enhancing (or less harmful for efficiency). His seminal study sheds light on why a country can have high economic growth with corruption.

One of the central themes of Dr. Li’s research is governance environment. Based on this theme, he integrates political economy, management, marketing and accounting to provide a comprehensive understanding of how investors in the two types of business environment, rule-based and relation-based, conduct and protect their business activities.

Professor Li’s research has been recognized at ODU as well. In 2005, the ODU publication *Quest* featured a study he co-authored on China and India. In the same year, another ODU publication, *The Courier*, featured a study he co-authored on trade and governance environment. In 2007, he received the highest research award from the College of Business and Public Administration for his work.

Since joining ODU, Dr. Li has been invited to give keynote speeches and lectures at Colgate University, College of William and Mary, Harvard University, Missouri Southern State University, National Sun Yat-Sen University (Taiwan), Regent University, Princeton University, Rollins College and University of New Mexico.

Knowledge integration

In integrating research with teaching, few can rival Dr. Li's achievements. In his research, he focuses on issues that are fundamental in affecting international business and keeps his research relevant to the practice of trade and investment. As a result of paying close attention to the practical relevance in his research, two of Dr. Li's articles have been included by Harvard Business School as teaching materials offered to business education worldwide.

In virtually every major area of international business, Dr. Li has made original discoveries with both theoretical vigor and practical relevance that enable him to integrate his research in teaching. For example, the major theme of his course, International Business, is how the political, economic, and social systems govern and affect business activities across countries. Dr. Li's groundbreaking research in the two governance systems in the world provides the fundamental guide for the course. In the course's discussion of the political and economic systems, his research on the interplay of the political and economic systems is used to help students better understand the intricate relationship. As the course progresses, it covers business culture and practice, where Dr. Li's research on corruption and relational governance are read by students; then the course turns into trade and investment, two areas in which he studies and publishes in depth; finally, the course progresses into marketing, IT, human resource management, and international accounting. In every one of the above areas, Dr. Li has made contributions in research that can be connected to his teaching to enhance the learning experience, as evidenced from the following excerpts from student evaluations:

"Dr. Li has to be one of the most intelligent professors at ODU. It's amazing to read some of the research he has done on the business relations of China and realize that what you are reading was written by your professor."

"I especially enjoyed the personal experiences Dr. Li told us about and the articles he shared with us from the *Wall Street Journal* and other sources."

Colleagues are equally impressed by Dr. Li's ability to integrate research and teaching. Professor Dongsheng Zhou, associate dean of the China Europe International Business School, commented that he is "one of the most authoritative and insightful China exports in the world," and attributes "his ability to integrate theories and practices" to Dr. Li's rich industry experience.

Service

Dr. Li's service is extensive and through it he has made significant contributions at the international, national, local, and university levels. Born and raised in China, Dr. Li has been active in promoting economic liberalization and political democratization in that country since the 1980s. In 1987, while a doctoral student at Princeton, he co-organized the first pro-democracy movement of Chinese students (*The New York Times* covered his story on Jan 26, 1987).

In 1989, after the Tiananmen Square massacre, he co-founded the Center for Modern China, a think tank funded by the U.S. Congress' National Endowment for Democracy that promotes the free market and pluralism.

His leading role in China's democracy movement has earned him worldwide praise. Celebrating the American Independence Day in 2001, in an editorial about the meaning of being an American, *The Wall Street Journal* writes, "In many ways, Mr. Li symbolizes what it means to be an American. We are a nation made great by immigrants. Mr. Li is one."

The Washington Post writes, "Professor Li...is typical of his generation of educated Chinese. He participated in the democracy movements of the late 1980s that culminated in the massacre, but like many others in his cohort, he also set aside his activism -- but not his beliefs -- when confronted by the overwhelming brute force of the Chinese state. Instead, he turned his attention to the peaceful study of the myriad social transformations that economic liberalization was bringing to China, hoping and expecting that these would slowly bring the changes that street demonstrations had not" (April 2, 2001).

In 2002, Dr. Li was invited by the U.S.-China Security Commission to testify before a congressional hearing on leadership succession in China (see "Testimony of Professor Shaomin Li," http://www.uscc.gov/researchpapers/2000_2003/reports/shao.htm).

Professor Li also writes opinion editorials to help the world understand the political and economic development in China, to promote the free market and democracy in China, and to introduce Old Dominion University to the world. Since he joined ODU, Dr. Li published more than 20 op-ed pieces. His op-eds have appeared in the *International Herald Tribune*, the *New York Times*, the *Virginian-Pilot*, the *Wall Street Journal* and other leading news media. He also frequently appears on Voice of America radio and TV programs about China's current affairs, discussing the ideas of free market and democracy. From 2004-05, he was a columnist for *Apple Daily*, the second largest newspaper in Hong Kong, and wrote 18 op-eds while a professor of Old Dominion, making Virginia and ODU well known to Hong Kong residents.

Naturally, Dr. Li's expertise on the political and economic development in China and his extraordinary personal story has made him a much sought-after speaker. He has given many talks at various places. He volunteered to lecture at local communities on China's development and its implication to the world, including a lecture for Virginia Beach Public Schools, a lecture to Ghent Venture Group (Norfolk), two lectures at the World Affairs Council of Hampton Roads, a lecture to the crew of the USS Bulkeley, and two lectures at the Institute for Learning in Retirement.

Dr. Li has been a visiting professor at Yonsei University (Korea) and National Sun Yat-sen University (Taiwan). As the 2006 annual report of ODU's College of Business and Public Administration puts it, he "is one of the College's best community ambassadors."

Finally, Dr. Li is committed to and invests in his university. With a strong conviction that the future of his school lies in the students, he contributes his expertise in data mining to help ODU improve its student quality and learning experience. Since 2005, Dr. Li has volunteered to lead a project aimed at improving admission standards, enhancing students' academic performance and reducing the drop out rate.

In sum, the range, magnitude and impact of Dr. Li's service is exemplary of carrying out ODU's mission, "serving the needs of the local, national, and international communities," as summarized by Navy Lt. Cmdr. Zoah Scheneman, a former student of his, "[Dr. Li's] contributions to our nation, in the pursuit of life, liberty, and freedom for all those in the world, set the finest example for me and his other students."

Personal Statement

Beijing, China, 2001. Lying on a wooden board in a heavily guarded room of a secret detention house run by the State Security Police, forced to face the eye-blinding light bulb on the ceiling, I was quickly reflecting on my life. Two things came to mind.

It was 1957 and I was several months old, living in Lanzhou, China. My mom, a university librarian, was denounced as an “enemy of the people” for criticizing the Communist Party, and sent to a labor camp in the Gobi Desert.

My other thought was of my dad, an outspoken intellectual, who was arrested by the State Security Police in Beijing in 1989 for his call for democratization.

Now it was my turn. On Feb. 25, 2001, on a lecture trip to China, I was arrested for “endangering state security.” My “crime” was my comparative study of China and Taiwan and my conclusion that China should learn about economic liberalization and democratization from the experience of Taiwan. Keeping my eyes closed from the 24-hour beaming light, I recalled a TV clip about a geologist suddenly swamped by the eruption of the volcano he was studying. Studying China is like studying a volcano. The closer you are, the more truths you uncover, but the greater the risk of being buried by an eruption.

Growing up in Mao's China, the physical hardship—imprisonment and starvation—was unbearable, but is nothing compared to our hunger for knowledge and truth. Mao closed all the universities to keep us from seeking them. When Mao died in 1976, the universities reopened. With only three years of formal school, I taught myself and was admitted to Peking University. My quest for knowledge and truth led me to study political economy, without realizing it would become a dangerous profession.

This quest eventually led me to tackle one of the most important questions facing contemporary political and economic leaders: Why do countries with similar endowments and culture take drastically different paths of political and economic development, resulting in some becoming affluent and free while others are suffering through corruption and poverty?

My study landed me in jail in a country that does not practice the rule of law — the very subject of my research. Five months later, under strong condemnation from the international community, I was freed. This ordeal prompted me to leave Hong Kong, China and return to my adopted country, the United States. While seeking an academic appointment, I was impressed by Old Dominion University's emphasis on internationalization, and felt that I could make a contribution there. Needless to say, my five years at ODU have been professionally and personally rewarding. One of my most memorable experiences was receiving an award that recognized my teaching. What made it special is that it was initiated by one of my students as a result of my teaching philosophy.

My teaching philosophy is “be a clock builder, not a time teller.” Imagine that someone is very good at telling the time. He looks at the sun and instantly claims: “it is September 10, 2007, twelve o'clock, 43 minutes, and 35 seconds.” He is incredible, a genius at telling time. Now, imagine that another person, instead of telling the time, builds a clock that tells the time. The time teller will be gone someday, but the clock will last, telling the time even after the life of its builder (Adapted from Alan Charles Kors in J. Collins and J. Porras, *Built to Last*, New York: Harper Business, 1997, 22-23). This analogy is something I use in my teaching. I try to make my students clock builders, not time tellers. What is a “clock” in education? It is the mindset, the

ability and the inspiration that enable the student to seek knowledge and truth, and apply them in a systematic way throughout their lifetime of learning and teaching others. The teacher's job is to build such a clock in each student. Clock building takes time. It requires patience and investment, and carries with it the risk of failure. Time telling, on the other hand, is fun and provides instant gratification.

A few years ago, at the end of a semester, I used this analogy to conclude my class. To make the discussion more relevant to the content of the course, I presented the students a scenario of two fictitious students -- young, single and equally intelligent, and both full-time college students. One works full time to help pay for college costs; the other takes out a student loan. I asked my students which approach is preferable. Most said the working student. When I asked why, most of them answered, "Taking a loan is risky; what if I cannot pay it back?"

This is precisely my point. While I admire those students who work to support themselves during college, I think, in many cases, students are better off taking out a loan and focus on their education. This is especially true if the student works for the wrong reasons. One wrong reason is that "I work so that I can buy stuff," such as a sports car. In other words, "I want instant gratification" (at the cost of long-term reward). I suggest that these students take out a loan and concentrate on their studies so that they can increase earning ability beyond paying for a sports car. Another wrong reason, in my views, is "I am not sure that I can get a better job after college. Thus, I'd better keep my current job." Students who think this way lack self-confidence and their predictions often become self-fulfilling.

A week after this lecture, I received a long e-mail from one of the students in the class. He said, "I just wanted to thank you for the last bit of advice you gave about being a clock maker and not a time teller. I had been thinking a lot about a career choice I had made and your advice helped me think much more clearly about my situation."

He told me that his life's goal was to fly fighter jets and that he planned to pursue a highly competitive program in which only a very few succeed. Before starting the program, he has several months of free time, during which he could either work to make some money or take private flying lessons to improve his odds in the competition.

This student wrote that before hearing the analogy I presented, "I was planning on working a lot and was just going to use the money to do a few vacations here and there. I didn't want to go take private pilot courses because they are expensive and I wouldn't be able to buy stuff if I took them. I really didn't think twice about the stupidity of that decision until your class. If flying jets is my dream why shouldn't I take out a small loan in order to make myself significantly more competitive?"

"Your lecture really helped me realize making sacrifices is necessary to help facilitate the steps I need to take to accomplish my goals. I am going to take private pilot courses this summer to give me an edge on the competition. In a couple years when I'm flying my jet I will definitely remember your class and the advice you gave."

I sat in front of my computer screen, reading this email several times. What more could I ask for a reward as an educator? For us, research projects may fail, lectures may be boring, but we never give up on clock building and we never give up on our students. As the Old Dominion University motto states – we are "changing lives" one student at a time.

Abbreviated Curriculum Vitae

Shaomin Li

Education

B.A. Political Economy, Peking University, 1982
M.A. Sociology, State University of New York at Albany, 1984
Ph.D. Sociology, Princeton University, 1988
Post-Doctoral Research, East Asian Studies, Harvard University, 1990

Professional Experience (Selected)

2005-Present Professor, Management and International Business, Department of Business Administration, Old Dominion University
2007 Visiting Professor, National Sun Yat-sen University (Taiwan)
2005 Visiting Professor, Yonsei University (Korea)
1999-02 Founding CEO, iEast.com, Ltd. (Hong Kong)
1996-02 Associate Professor, Faculty of Business, City University of Hong Kong
1994 Visiting Professor, Peking University
1993 Visiting Scholar, Faculty of Business, Hong Kong University of Science and Technology

Publications

Journal Articles (Selected from more than 50)

The Influence of Mao on Chinese CEOs, (with Kuang Yeh), *Harvard Business Review*, December, 2007.
The effects of the governance environment on the choice of investment mode and the strategic implications, (with Larry Filer), *Journal of World Business*, 42, 1, 80-98, 2007.
When iron fist, visible hand, and invisible hand meet: Firm-level effects of varying institutional environment in China, (with Justin Tan and Jun Xia), *Journal of Business Research*, 60, 786-794, 2007.
Market liberalization and firm performance during China's economic transition, (with Seung Ho Park and David Tse), *Journal of International Business Studies*, 37(1), 127-147, 2006.
Location and performance of foreign firms in China, *Management International Review*, 44(2), 151-169, 2004.
Why are property rights protections lacking in China? An institutional explanation, *California Management Review*, 46(3), 100-115, 2004.
The great leap forward: the change of governance in a transition economy, (with Seung Ho Park and Shuhe Li), *Organizational Dynamics*, 33(1), 63-78, 2004.
Impact of FDI on the productivity of domestic firms: The case of China, (with Dongsheng Zhou and David Tse), *International Business Review*, 11(4), 465-484, 2002.
The road to capitalism: Competition and institutional change in China, (with Shuhe Li and Weiying Zhang), *Journal of Comparative Economics*, 28, 269-292, 2000.
The impact of order and mode of market entry on profitability and market share, (with Yigang Pan and David Tse), *Journal of International Business Studies*, 30(1), 81-104, 1999.
Success in China's industrial market: An institutional and environmental approach, *Journal of International Marketing*, 6(1), 56-80., 1998.
Calculation of mortality schedules for very old people in China with allowance for misreporting of ages, (with Ansley Coale), *Demography*, 28(2), 293-301, 1991.
Measuring the fuzziness of human thoughts: an application of fuzzy sets to sociological research, *Journal of Mathematical Sociology*, 14 (1), 67-84, 1989.

Books (Selected from a total of nine)

China's Reform and Business Management, (with Xiaofeng He and Oliver Yau) Hong Kong: City University of Hong Kong Press, 1998, (It was selected as one of the 10 Best business books by *Hong Kong Economic Times*, February 1999, and was republished in China by Peking University Press, 1999).

The Political Economy of China, Taipei: Laureate Books, 1992.

China: Reforms and Development, (with Dahai Yu). Taipei: Laureate Books, 1991

Book chapters (Selected from a total of 15)

Private ownership and public ownership, in R. David Arkush and Leo O. Lee (eds.), *Land Without Ghosts*, Berkeley, CA: University of California Press, 295-298, 1989.

Opinion-Editorials (selected from more than 30)

Nice balance sheet. But whom do you know? *The Virginian-Pilot*, Oct 15, D5, 2006.

Speaking up on China, *The Wall Street Journal Asia*, Sept 27, p12, 2006.

When China says 'shut up', shout back." *The Wall Street Journal*, Sept 25, A15, 2006.

Jailers who thrive on silence, *The New York Times*, September 10, 2001.

My long journey home, *The Wall Street Journal*, August 7, 2001.

So Taiwan was right all along, *The Wall Street Journal*, May 11, A15, 1989.

Invited Lectures and Presentations (Selected from more than 20)

The Chinese firms at the crossroad, invited keynote speech at the conference on the Globalization of Chinese Firms sponsored by Rollins College and Georgia Technology Institute, Winter Park, FL, Dec 1, 2006.

Is China Emerging? Princeton University, June 2, 2006.

China's transformation: A historical and comparative perspective, invited lecture at the Alumni Retreat of the College of William and Mary. April 27-28, 2005.

China's transformation: A historical and comparative perspective." Invited lecture at World Affairs Council of Greater Hampton Roads, Virginia Wesleyan College, Norfolk, VA. Feb. 12, 2005.

China's greatest leap forward. Presentation at the workshop on "Regime Change in China" organized by John M. Olin Institute for Strategic Studies, Harvard University, June 23-26. 2003.

China's Legality and my experience. Princeton University, October 1, 2001.

Professional Service (Selected)

Associate Editor, *Corporate Governance: An International Review* (2007-present)

Vice President, Center for Modern China, Princeton, NJ (1990-93)

Founding Editor, *Papers of the Center for Modern China* (that evolved into the *Journal of Contemporary China* and *Modern China Studies*) (1989-92)

Editorial Board, *Modern China Studies* (1992-present)

Editorial Board, *Applied Demography* (1993-95)

Research Associate, Fairbank Center for East Asian Research, Harvard University (1989-present)

Research Associate, Center for Modern China (1989-present)

United Nations Advisor to China, (1993).

Senior Advisor, Tianjin Statistical Bureau, Tianjin, China, (1995).

Consulting advisor, Johnson & Johnson (1996).

Consulting advisor, AIG Emerging Market Fund (1996-01)

Consulting advisor, AT&T (1996 and 1999)

Consulting Advisor, New World Infrastructure (Hong Kong) (1999-01)

Letters of Support (Excerpted)

“The core of Dr. Li’s teaching philosophy is that it best to teach student how to learn and apply knowledge, rather than to fill their minds with data. As he has put it, he tries to ‘inspire my students to develop an inquiring and open mind with an ability to analyze and theorize, not merely to recognize facts.’...One of the best features of Professor Li’s scholarship is that he is constantly exploring ways to expand his work across disciplines. Dr. Li has published articles with many faculty in the College of Business and Public Administration across a variety of disciplines... He also works with faculty in the [College of] Arts and Letters. There is a theme to his work, but he broadly explores the relationship of this scholarship to other topical areas. His high degree of intellectual curiosity is evident from the evolution of his research stream, which now emphasizes governance and its impact on international business and strategy. ... Dr. Li’s research significantly impacts his teaching. ...His own personal experiences in China come alive for students in the classroom. As noted, Dr. Li’s work integrates knowledge from a variety of disciplines. Additionally, he draws from politics, economic, and culture in his teaching and research. ...Professor Li is always willing to help when called upon to do so. ...[He] is a very sought-after speaker...writes for newspapers, including the *Wall Street Journal* ... instrumental in helping the management discipline to reinstate the management track in the doctoral program in business administration ... reviews papers for a number of prestigious journals and meetings and serves on editorial boards, as well as being the associate editor of *Corporate Governance: An International Review*.”

-- Nancy Bagranoff, Dean, College of Business and Public Administration,
Old Dominion University

“We [National Sun Yat-Sen University] are fortunate to have Professor Shaomin Li as a visiting professor . . . since he is such a great researcher and teacher. His expertise in the global environment of business, and particularly his experience and insights in conducting business in Asia and China, greatly enhances our research and teaching. Our faculty members and students, whose cultural background and business ties are the closest to China, are impressed by Dr. Li’s incisive analysis on why Chinese heavily rely on “*guanxi*” – personal connections and informal networks – to conduct business. Dr. Li shows us that it is not because of Chinese culture; rather, it is primarily due to the lack of a well-established rule of law. His research on why China thrives despite corruption dispels a long-held myth about corruption. With a genius research design, he clearly shows that in a society with an extensive and thick social network, the negative effect of corruption is mitigated and at the same time, makes eradicating corruption more difficult. ...In this regard, few scholars have the ability to offer us something entirely new and groundbreaking in understanding China’s economy. Dr. Li is one such scholar. “

-- Kuang S. Yeh, Chair and Professor, Department of Business Management,
National Sun Yat-Sen University

“Dr. Li is committed to and invests in his university. Clearly realizing that the future of Old Dominion University lies in the students, he has voluntarily contributed his expertise in data mining. For the past two years, Dr. Li has led a project aimed at improving the admission standards, enhancing students’ academic performance, and improving retention. ...[He] is an astute, energetic, hard-working and sensitive colleague. I am genuinely impressed and amazed at his ability to balance his research, teaching, and social and political contributions. I meet with Dr. Li on a regular basis to seek his advice on how to attract better students or how to deal with difficult situations, and he has graciously and reliably shared his insights with me. I value his judgment and trust his advice explicitly. His expert insights have made a distinct difference in my effectiveness as an administrator. ...Dr. Shaomin Li is a model ODU faculty member who has touched the lives of thousands of our students. He is dedicated to Old Dominion University

and its mission, and he is always prepared to do whatever he can to help the institution reach ever greater levels of excellence.”

-- Alice McAdory, Executive Director of Admissions and Assistant Vice President of Institutional Advancement, Old Dominion University

“Dr. Li is a powerful and passionate teacher. He would get very excited in explaining a point, which is infectious and all of us would get excited and begin to participate and argue like colleagues rather than students to a teacher. He has the ability to bring an abstract concept, such as the legal system, alive, as if we were in a court debating. ...Furthermore, Dr. Li strongly encouraged us to keep up with events outside the classroom, such as global political, economic, investment, and international trade issues. The training that I received from Dr. Li’s class gave me a very good foundation to conduct research and teaching independently in academia.”

--Lee-Hsien Pan, ODU Alumnus, Ph.D. student, Syracuse University

“Shaomin Li brings his personal and work experiences into the classroom, as well as in his research projects with other faculty. He has work experience at high levels with companies such as AT&T and Johnson and Johnson, to go with his educational experiences from universities like Harvard and Princeton. Shaomin was also the founding CEO of his own successful company. These experiences come to the forefront when I work with him on projects. ...His students really enjoy and benefit from the true stories he tells from his days in industry. They are not the only ones. Being a foremost expert on Chinese governance issues, Shaomin has been quoted several times in, and has written articles for, *The Wall Street Journal*. ...In addition to his teaching and service, Shaomin Li has produced breakthrough theories and models in his research. Tying in his vast understandings of China, Shaomin has helped create a rule-based, relation-based theory of corporate governance that is widely cited.”

-- Robert Pinsker, Assistant Professor of Accounting, Old Dominion University

“His [Shaomin Li’s] range of scholarship is remarkable, having published articles in the very best journals in our field (e.g., *International Business Review*, *Management International Review*, *Journal of International Business Studies*), as well as the most selective practitioner journals (e.g., *Harvard Business Review* and *California Management Review*). These two sets of journals give enormous exposure to the university and college of business to their very high citation rates and very selective publication standards. ... No “ivory-tower academic”, Dr. Li’s expertise is widely sought after by such notably venues as the *Wall Street Journal*, the *New York Times*, and as a keynote speaker at various international business conferences. ... Shaomin’s extraordinary success in publications is due to: (1) a very high intellect, (2) a strong work ethic, and (3) the meaningfulness of speaking the “truth to power.” Indeed, the unjust treatment of his parents and Shaomin himself gives him a unique perspective and powerful voice for addressing problems and opportunities associated with international business in general and the Chinese economy in particular. ... Finally, Dr. Li is committed to excellence in everything that he does. He is constantly striving to perform at the highest level, is open to constructive feedback, and incredibly humble for all of his many accomplishments. On top of everything else, he is an accomplished portrait painter with a distinctive style and flair. In sum, Dr. Li is an incredible asset to the state of Virginia and is long overdue for recognition. I am delighted that he is finally being recognized for his exemplary scholarship, teaching abilities, and personal example of integrity. “

-- William Judge, Professor of Management and E.V. Williams Chair of Strategic Leadership, College of Business and Public Administration, Old Dominion University

“Professor Li is a creative thinker and his research is highly original. The results of his research work always provide some unique, very often unconventional but intellectually convincing insights for the academics, policy makers, and business executives. ...Professor Li and I often discuss our experience and ideas on the teaching methodology. He also often kindly sends me some of his new teaching notes and class discussion cases for my reference. I find his teaching philosophy of ‘being a clock builder, not a time teller’ very enlightening, and the way he teaches in class is very illustrative and attractive. He always tries to combine economics and business theories with vivid cases drawn from real business practice to help students to understand key theoretical concepts, and encourage students to be creative.”

-- *Wei Zhang, Director of Cambridge Research Centre for Chinese Economy
University of Cambridge*

“Shaomin is a recognized expert on China. He has written a book and many articles on China, and given many presentations on the subject. At one time he was in charge of a project to compile economic and social statistics on China. Shaomin has been very productive as a scholar, and has amassed an impressive volume of academic research, having published more than fifty papers and articles in academic journals, nine books, and forty articles in other places. ...The major theme running through his research is the dichotomy between “relation-based” and “rules-based” societies. He uses this idea to analyze the difference between China and western societies. In other work, I remember a particularly clever paper written by Shaomin and a co-author based on creating a mathematical/economic model of corruption. Shaomin seems to write quickly and fluidly, and his points are made clearly and logically. He truly has a talent for writing. ... This talent carries over into Shaomin's teaching. He is an inspiring teacher. Using his good sense, his abilities to compose, to speak, to argue, and his sense of humor, Shaomin has certainly made a big impression on his students.”

-- *David Selover, Associate Professor of Economics, Old Dominion University*

“In 2005, Dr. Li presented an outstanding lecture [to the World Affairs Council] and answered questions on the internal struggles in China as it gains more influence globally with its explosive economic growth. ... In 2006, when the topic of “China and India, partners or competitors?” was chosen, he returned, by popular demand, to share his thoughts on China's relationship with India on the world's economic stage and the implications for US trade and foreign policy. Both of these sessions were highly acclaimed by the audience and greatly increased understanding of this important region by the Hampton Roads community. ...Dr Shaomin Li's unselfish service to the Hampton Roads Community by freely giving of his time to prepare and share his superb knowledge and insights is indeed commendable and greatly appreciated by the World Affairs Council.”

-- *Larry C. Baucom, Chair, Great Decisions Committee, World Affairs Council of Hampton Roads and Rear Admiral, USN (Retired)*

“I have had the opportunity to work with Shaomin on several occasions. I find him to be a brilliant and dedicated professional. ... Shaomin's teaching style is very engaging. He has a classroom presence that draws students to listen attentively and yet elicits interaction and lively discussion. He challenged students to examine different perspectives which made them want to learn more. Shaomin creates the ideal learning environment based on open communication and mutual respect. He received outstanding participant evaluations and was considered one of the finest instructors. ... Shaomin's greatest strengths in the classroom are that he is always well prepared; absolutely passionate about his field; conveys genuine interest in students' learning; and uses creativity and humor to make his points.”

-- *Shelia Powell, Director, Executive Development Center, Old Dominion University*

Additional Documentation

Student Course Evaluation Comments (Selected)

Overall comments

This was an excellent class. The text was very good and Dr. Li was a fountain of information. The structure of the course was very good and visual presentations were well done. I learned a lot from our group project. ...the focus Dr. Li on analysis during every class was the most helpful.

I love Dr. Li's teaching style. He doesn't make himself superior to the class. He helps answer any questions that we have, keeps us up to date on assignments and news. He also offers additional assistance above and beyond the call of duty.

The world became smaller in the sense that I have a better understanding of International relations and the business workings of other cultures.

Being able to hear Dr. Li discuss topics and putting them into easier terms of understanding.

The instructor was very enthusiastic about the subject. Also he was very easy to approach for questioning.

Very Good Teacher! Very Enthusiastic about Teaching!

Helping and respecting students

I appreciated the instructor's attitude towards the students in the class. Although he was clearly in control at all times, he did not condescend or conduct the class in an authoritarian manner.

Dr. Li shows a high respect of students' expressions and corrects in a respectful way. He is well versed in the social, political contents.

Dr Shaomin Li has been very helpful and shown tremendous sensitivity to student's needs all through the semester.

Subject knowledge and real world experience

Dr. Li has to be one of the most intelligent professors here at ODU. It's amazing to read the research he did on business relations of China and realize that it was written by your professor.

Dr. Li made the class interesting because he applied his real life experiences in international business to what the text book said. This helped me understand . . . international business.

Dr. Li brought a lot of knowledge that he learned from working all over the world. His experiences helped me to think more globally.

I believe that the professor's knowledge of the readings and subject area as well as his insights into the subject matter contributed very significantly in encouraging critical thinking.

Dr. Li ... is an expert in international business. His vast knowledge, his never ending assortment of practical examples, and his enthusiasm really pulled me into the subject.

commentary

Clock building vs. time telling

BY SHAOMIN LI
Professor of Management

Imagine that someone is very good at telling the time. He looks at the sun and instantly claims: "It is June 1, 2005, 12 o'clock, 43 minutes and 35 seconds." He is incredible, a genius at telling time. Now, imagine that another person, instead of telling the time, builds a clock that tells the time. The time teller will be gone someday, but the clock will last, telling the time even after the life of its builder.

This analogy, from a lecture on intellectual history and the Newtonian revolution by professor Alan Charles Kors of the University of Pennsylvania, is something I use in my teaching. I try to make my students clock builders rather than time tellers. What is a "clock" in education? It is the mindset, the ability and the inspiration that enable students to acquire new knowledge, understand new phenomena and apply their knowledge in a systematic way throughout a lifetime of learning. The teacher's job is to make such an imprint on the student.

Clock building takes time. It needs patience and investment, and carries the risk of failure. Time telling, on the other hand, is fun and provides instant gratification. Unfortunately, we are often pressured to seek instant gratification. For instance, we need good student evaluations now – not words of appreciation from our students 10 years after they graduate.

At the end of the spring semester, I used professor Kors' analogy of clock building vs. time telling to conclude one of my classes. To make the discussion more relevant, I presented the students a scenario about two fictitious students. Both are young, single and equally intelligent, and both attend college full time. One works full time to earn money; the other takes out a student loan. I asked my students

which is preferable. Most chose the working student. When I asked why, most of them answered, "You can buy more stuff" and "Taking a loan is risky; what if I cannot pay it back?"

This is precisely my point. While I admire those students who work to support themselves through college, and while I recognize that some must work to support a family, I think in many cases students are better off taking out a loan. This is especially true if the student works for the wrong reasons. One wrong reason is that "I work so that I can buy stuff" or "I need to pay for my sports car." In other words, "I want instance gratification" (at the cost of long-term reward).

I suggest that these students should instead take out a loan and concentrate on their studies so that they can increase their earning ability beyond paying for a sports car. Another wrong reason is: "I am not sure that I can get a better job after college. Thus, I'd better keep my current job." Students who think this way lack self-confidence and tend to not fare as well as they could. They are afraid of taking risks. And their prediction often becomes self-fulfilling.

A week after my lecture, I received a long e-mail from one of the students in my class. In the opening, he said, "I just wanted to thank you for the last bit of advice you gave in class about being a clock maker or time teller. I had been thinking a lot about a career choice I had made and your advice helped me think much more clearly about my situation."

His life goal is to fly fighter jets and he plans to go to a highly competitive program in which only a very few will be selected as pilots. Before he goes, however, he has several months of free time. He can either work to make some money or take private flying lessons to improve his odds in the competition.

He wrote that before hearing the analogy I presented, "I was planning on working a lot and was just going to use the money to do a few vacations here and there. ... I didn't want to go take private pilot courses to get me ready for flight school because they are expensive and I wouldn't be able to buy ... stuff ... if I took them. I really didn't think twice about the stupidity of that decision until your class Thursday."

"If flying jets is my dream why shouldn't I take out a small loan in order to make myself significantly more competitive?... I would regret it for the rest of my life if I did not do what I could to achieve my goals. Your lecture really helped me realize that I am the one in charge of where my life is heading and I need to take control of it, making sacrifices if necessary to help facilitate the steps I need to take to accomplish my goals."

"For the first time I really feel like I know what I'm doing, you helped me to see that. Once again, thanks for the advice. As I told you it has made all the difference in the world. I'm going to take private pilot courses this summer to give me an edge on the competition down there. In a couple years when I'm flying my jet I will definitely remember your class and the advice you gave, and I will pass it on whenever I can."

I sat in front of my computer screen, reading this e-mail several times, enjoying this precious moment. What more could I ask for in my teaching? The best reward we as teachers can get is that students value our advice, which makes a difference in their lives. For academics, research projects may fail, lectures may be boring, but never give up on clock building, never give up on our students. As Old Dominion says, our mission is "changing lives," one at a time.

MONDAY
MAY 13, 2002

The Virginian-Pilot

Falsely accused in China, professor begins anew at ODU

BY PHILIP WALZER

NORFOLK - Like most of his colleagues, Old Dominion University professor Shaomin Li worries about looming state budget cuts. A year ago, his fears were more personal and a lot more urgent:

Would he see his wife and daughter again?
How many more weeks would he have to endure house arrest in Beijing?
Would he beat China's trumped-up charges that he spied for Taiwan?

Last month, Li joined ODU without fanfare as an associate professor of management.

Last year, he was an international cause celebre, his name on the lips of President Bush, his plight the subject of New York Times articles and Wall Street Journal editorials. His daughter, Diana, 9 at the time, told CNN's John King that she'd spank China's leader, Jiang Zemin, if he didn't release her father.

Li, a native of China who became an American citizen in 1994, survived his five-month imprisonment with "faith and will," he said last week. "You have to keep your faith and have a strong will to achieve whatever you want to achieve," said Li, 45.

Add to that a strong dose of discipline, he'd jump on his bed or run in place for 20 minutes to stay fit and an immovable sense of logic ("I have no control, so why worry?").

That cool logic extends to his assessment of China. Despite all he underwent no torture, but psychological pressure, including round-the-clock guards who accompanied him while he slept or went to the bathroom Li can still praise China's economic liberalization.

But that, he plans to tell a federal commission during testimony in Washington today, is not enough. "Economic reform has gone forward and political reform nothing happened," Li said during an interview in his sparsely decorated office in Constant Hall. "It's like walking with one leg."

China, he will tell the U.S.-China Security Review Commission, must overhaul its constitution to permit private-property rights and a multi-party system. "Chinese leaders seem to have missed the point that without democratization, any alliance or close relation with the U.S. is impossible," Li said.

Li's story oddly mirrors that of his father, who began as a Communist diehard, lost the faith and was later placed under house arrest for 10 months in 1989.

Growing up in China, Li thought he was living in the best of worlds: "We did not have much other information. We were told people in the United States were miserable. They were living in a horrible situation."

He began to rethink Communism after reading more about the world as an undergraduate at Peking University in the late '70s. After he re-

ceived his bachelor's degree in political economy in 1982, he went to the United States for graduate study, receiving his doctorate at Princeton in 1988.

"In China, the spectrum is left, very left, ultra-left and extreme left," Li said. "I would fall off the spectrum. I knew I really loved this country."

During his stay at Princeton, he also got his first taste of political activism and international fame. In 1987, Li was among hundreds of Chinese students in the United States who signed a letter criticizing China's crackdown on dissidents, an unprecedented act of defiance.

He was pictured and quoted in a front-page New York Times article.

After a year of post-doctoral work at Harvard, Li joined AT&T, working on statistical marketing strategies, particularly for China.

He accepted an offer to teach at Hong Kong's City University in 1996, a year before China regained control of the territory. Li saw it as a "bridge between the West and China." From Hong Kong, "you can go to China to do research, but you don't lose touch with current academic developments in the West."

Li denies pushing for change while he was in Hong Kong, though he had written for the need to democratize. But his past, and his father's, caught up with him.

It happened on Feb. 25, 2001. He was traveling to China for a speech on "customer relations management" to an appliance company.

Border guards stopped him at the checkpoint and eventually told Li he was accused of "endangering state security. I said, 'What did I do?' They said, 'You know what you did.' It was just like a movie."

Li was also told: "If you sign a statement that you will not talk to the consulate, things will be solved in no time, I promise you." He didn't buy it.

He was taken to a secret house in the same Beijing neighborhood where his father had been held. Finally, in May, he was charged with espionage.

Li recalls that his two-hour trial in July 2001 was something of a sham. He praises his attorney for doing the best he could, but the lawyer was never allowed to use the word "innocent." The government's only evidence: a statement connecting Li with a Taiwanese organization. True, Li said, but it involved consulting work, not spying. And the organization was hardly a threat; it supported Taiwan's reunification with China.

The judge found Li guilty, but instead of sentencing him to prison, expelled him from China. Li credits his release to the convergence of pressure exerted on Chinese officials from President Bush, Congress, human rights activists and the media.

Li returned to the Hong Kong University, whose

leaders hadn't been too supportive. The president counted Li's captivity as vacation time.

"He was caught between academic freedom and 'pledge allegiance to Beijing,'" Li said.

After the president denied him an unpaid, one-year leave to teach elsewhere, Li decided it was time to return to the United States.

He accepted ODU's offer, he said, because its promise touting globalism were backed by reality: President Rossant Runte starting scholarships for foreign students, and ODU paying for students to get passports.

Runte said Li was hired for "academic reasons because of his excellence in his field and because we needed someone in that area."

His immediate boss, management professor Paul J. Champagne, said: "He comes to us with really good credentials. When he interviewed here, he presented us with one of the best publication records of anybody I'd seen in an awfully long time."

Students in his International Business Operations class say he's smart and quick in providing global examples.

For his part, Li said U.S. students are different from the Chinese: They interrupt lectures to ask lots more questions. But that's fine with him.

"Communication is vital for teaching," Li said. Li lives in the Lafayette-Winona neighborhood of Norfolk with his wife, Amy Liu, a former professor, and their daughter, now 11.

Still holding rationalism above emotion, Li says it's possible China will turn to democracy in his lifetime. But he doubts he'll be able to visit anytime soon.

"Studying China is like studying a volcano," he wrote in a column in the Asian Wall Street Journal in July. "The closer you are, the better the view you get at the risk of running into an eruption."

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Tangled web

GUANXI—relationships or connections. Ah, now there's a mystical concept. Very Chinese. If you don't have the patience to learn about *guanxi*, old boy, you might as well pack your bags and go home.

But thinking about *guanxi* as some kind of spiritual ectoplasm is not particularly helpful. Shuhe Li and Shaomin Li, two economists at the City University of Hong Kong, have looked at it in economic terms instead. What follows is based on their ideas.

In advanced economies, companies do business within a rules-based system. This means that business is generally conducted in a publicly verifiable manner (ie, using contracts), under laws that are widely known and consistently enforced. Although it may not be apparent to those operating in a rules-based system that has grown up over decades or even centuries, such a system carries large fixed costs. That is, the establishment of the legislation and the judiciary, the drafting and interpretation of laws, and the implementation of contracts all involve high sunk costs. On the other hand, the incremental cost of enforcing an additional contract is loose change. Once such a system is in place, people take it for granted.

China's is not a rules-based economy, at least not yet; it is still an economy based on relationships. Business transactions are made on the strength not of contracts but of personal agreements. Transactions are purely private. They are neither verifiable nor enforceable in the public sphere.

How, then, do you avoid being ripped off in such a system? You thoroughly check a person's background, his status and his assets. If he cheats, you know how to seize his assets, blackmail him or, if you have to, kidnap him. This sort of governance (a kind of heavily armed tit-for-tat) can be highly effective in forcing two parties to keep to an agreement, say Messrs Li.

A rules-based system needs a high and costly level of public order. A relations-based system needs only minimal public order. All you need to know is that you are unlikely to be mugged on the way to the bank, and that the bank manager is unlikely to run away with your money. On the other hand, the marginal costs of finding, screening and monitoring a potential partner are extremely high. For instance, the relationships have to be managed personally: you cannot afford to delegate the task. A telling difference with the West is that executives in China tend to answer their own phones.

Family first

Given this high marginal cost of cultivating new relationships, it makes sense to do business first with close family, then with the extended family, then neighbours from your home town, then former classmates, and only then, reluctantly, with strangers. This is how market reforms spread in China during the 1980s and 1990s. Instead of incurring the high fixed costs involved in setting up a rules-based system, the country took the cheaper route of relations-

based development. That led to an explosion of markets, and to a rapid division of labour. That, in essence, is what the "Chinese miracle" is all about.

The trouble is that in the absence of a rules-based economy, those splintered local markets cannot merge into regional, national or even international ones. Moreover, they create immense economic distortions through corruption and the misallocation of resources. By trying to push through tough economic and legal reforms, the Chinese government is attempting to switch from relations-based to rules-based governance. It is trying to break the cosy links between banks and their state customers. It is cracking down on the many smuggling rackets that are simply a form of relations-based trading. It is trying to disengage itself from its over-close relations with business. And it is attempting to produce laws for the market economy, not the socialist one.

Beware, foreigner, beware. The closest scrutiny is needed just at the point where *guanxi* appears to become redundant. As markets expand and the economy becomes more complex, the average cost of relations-based governance rises whereas the cost of rules-based governance falls. Yet the transition from the first form of governance to the second is not as smooth as outsiders like to believe. They see the introduction of new rules that protect investment. Insiders see a state of flux created by changing relations among market participants. Outsiders see an opportunity to invest. Insiders see an opportunity to loot. This may help explain, say Messrs Li, why you are finding it so tough to do business in China right now.