4

Economic Transformation and State Rebuilding in China

Dali L. Yang

Historically,[1] the development of modern market economies in different countries has pushed states to "develop rules about property rights, governance structures, rules of exchange, and conceptions of control in order to stabilize markets" (Fligstein, 2001, p. 36). In the United States, the historian Robert H. Wiebe famously noted, the march of nationalization, industrialization, mechanization, and urbanization exerted enormous strains on the ethos and institutions of small-town America and prompted a search for order (Wiebe, 1967). The state that was forged in the Civil War became inadequate to the push and pull of industrialism, and "a qualitatively different kind of state" was built in the late 19th and early 20th centuries during what is now known as the Progressive Era (Skowronek, 1982, p. 4). Civil service reforms were introduced to curb the corrupt localism and particularism of patronage politics; a managerial and regulatory state arose to tackle problems ranging from poor public health to monopolies. Echoes of the Progressive Era's political struggles and negotiations over the shape of this regulatory state continue to be heard in today's United States, often magnified in episodes such as the collapse of Enron and Worldcom.[2]

As the postcommunist economies have dismantled their command economies, they have also faced the daunting challenges of refurbishing

[1] Earlier versions of this chapter were presented at the international conference on "Centre – Periphery Relations in China: Integration, Disintegration or Reshaping of an Empire?" March 24–25, 2000, The Chinese University of Hong Kong and at the American Political Science Association Annual Meeting, August 31–September 2, 2000, Washington, D.C. I thank John Burns and Alfred Stepan for their helpful comments.

[2] See, e.g., Carpenter, 2001.

the state for the era of markets. In the 1980s and through the early 1990s, the Chinese reforms parceled out resources and power to local interests. Most studies of China suggested that the decentralization and the flattening out of the organization of the Chinese state contributed to the rapid growth of the Chinese economy (Oi, 1992; Qian and Xu, 1993). Yet, although the decentralization provided incentives for local development, it also gave local authorities the wherewithal to engage in all manners of local protectionism. Such protectionism in turn served to undermine the formation of a national market as well as the fair administration of justice. More broadly, the institutional designs that stimulated local protectionism contributed to the legitimacy crisis of the party-state.

When Jiang Zemin was catapulted to Beijing to become the general secretary of the Chinese Communist Party in 1989, he was widely seen as a transitional figure much like Mao's immediate successor Hua Guofeng. In the aftermath of the Tiananmen tragedy of 1989 and the collapse of the Soviet Union as well as amid macroeconomic difficulties, Jiang, Premier Li Peng, and other central leaders were afraid of losing their grip over the ponderous organizational setup. In response, they have struggled to reconstitute the sinews of governance, especially the levers of central control.

Unlike Russian leadership, the Chinese leadership has retained and strengthened control over the Communist Party and the instruments of state violence. As the chapters by Cheng Li and Zhiyue Bo have discussed the party's oversight over personal management, in this chapter I focus on the restructuring of the fiscal, financial, and various administrative systems to reveal the extent to which central–local relations have been put on a different footing.

In contrast to commentators who have suggested that the recentralization of the 1990s would have had the approval of Mao and could go as far as to choke off growth (Chang, 1999), I suggest that China's leaders appear to have found a middle ground for reorganizing the framework for state action. Although some of the reforms, including taxation and the fiscal system, are aimed at shoring up the fiscal foundations of the central state, most of the reforms have a public goods aspect in that the center has to step in where the local authorities are likely to shirk. This is clearly the case in the reforms of the central banking system (macroeconomic policy), but it is equally important in the enforcement of laws for environmental protection, quality, safety, and intellectual property. In other words, I argue that much progress has been made toward the construction of a regulatory state.

REBUILDING THE TAX AND FISCAL INSTITUTIONS

Besides strengthening control over areas that the Communist Party had traditionally emphasized, including the military and armed police, personnel appointments, and the propaganda apparatus, the crisis in the economy at the turn of the 1990s, characterized by rising inflation, prompted the central leadership to seek to reassert economic control. As China's leaders grappled with the economic turmoil, they quickly realized that the Chinese financial system was not conducive to the sort of fine-tuning they had in mind. Frustrated by the difficulties of maneuvering a makeshift economic system and afraid that they might not be able to get the house in order before Deng died (Deng turned 89 in August 1993), the Chinese leadership began to push for sweeping rationalizing reforms of the economic system.

I have discussed the economic stabilization measures elsewhere (Yang, 1999). Simply put, concerns about political succession, macroeconomic difficulties, and the central government's take of government revenue were the leading factors behind the Chinese leadership drive to restructure the fiscal and tax systems. In 1993, the central government's share of the budgetary revenue was only 22 percent of the total, with the rest going to the provinces. The fiscal deficit reached 29.9 billion yuan. The fiscal enervation of the central government relative to the localities made central leaders feel that they were piloting an aircraft carrier by using the controls for a small boat. In the words of Finance Minister Liu Zhongli, "when the government does not have money, its words no longer count." Thus the central leadership, particularly Jiang Zemin and Zhu Rongji, decided to take the political risk and push for a revamping of the taxation and fiscal systems in 1993. They invoked alarmist visions and the authority of Deng to gain leverage over provincial authorities.[3] In driving the bargain, they promised that the provinces would not see a reduction in their current level of fiscal income. Afraid that provincial leaders would present a united front in collective bargaining, the central leadership marshaled its organizational and other resources and adopted a divide-and-rule strategy vis-à-vis local officials (Yang, 1994, pp. 85–7). A special working group, made up of over 60 people, including Vice Premier Zhu Rongji and officials from the Ministry of Finance and other government departments, traveled to 17 provinces one by one to hammer out the base revenue figures for each province and readjust the fiscal relations between the central government and the provinces.

[3] For a succinct overview of problems with the prereform fiscal system, see Bahl, 1999, pp. 24–8.

By the end of 1993, a sweeping reform of the taxation and fiscal systems had been put together for implementation starting in 1994. In contrast to the fiscal contracting system that had given the central government only a set amount of revenue, the newly introduced tax assignment system designated different categories of taxes to the central and local governments, respectively, similar to the federalist system used in many Western countries.[4] The reforms standardized the taxation system, simplified tax categories and tax rates, and, by promoting fair taxation, were conducive to fair market competition (Xiang Huaicheng, 1997). The reforms were clearly designed to help the central government benefit from the marginal growth in the economy and in revenue generation (Chung, 1995; Yang, 1994).

A

The fiscal reforms were introduced without much difficulty and had an immediate impact on the division of revenue between the center and provinces.[5] In 1994, the central government's share of budgetary revenue rose to 56 percent, an increase of 33.7 percentage points from a year earlier. It has remained at more than 50 percent since then. Although most of the increased central revenue was returned to the provinces as rebates, the central government's effective control over the revenue stream has

[4] According to the plenum decision (Article 18) and the Ministry of Finance, the major taxes and responsibilities shall be allocated as follows: The central government is responsible for funding national defense, diplomacy, armed police, key state projects, the national deficit, and governmental administrative departments, whereas other expenditures shall be the responsibility of local governments. Central revenue will come from tariffs, a consumption tax collected by customs, value-added taxes and (nationally based) business taxes. Taxes collected by local governments include business tax, income tax of local enterprises, and a personal income tax. Taxes shared by both central and local governments include the value-added tax, securities trading tax, and natural resources tax. In other words, the center will rely on indirect taxes, leaving the politically hazardous and administratively cumbersome personal income tax to local authorities.

[5] For a discussion of the problems of implementation, see Sun and Wang, 1994.

been augmented. In the meantime, local authorities have less incentive to hide taxes and wealth from the central government as they collect their own taxes. In consequence, local tax revenue has also grown far more rapidly than before the fiscal reforms.

In connection with the tax reforms, major initiatives were undertaken to strengthen the institutional underpinnings of tax administration for the central government.[6] Prior to the 1994 reforms, the central government relied on locals to collect taxes for remission. Local governments used their discretionary power to negotiate tax payments with enterprises and offered tax exemptions to overseas investors to attract investments. There were multiple tax arrangements for different enterprises, enterprises of different ownership, and different industries. The delegation of tax authority to the local level was therefore not conducive to the creation of a level playing field. In contrast, the change from contracting to tax sharing calls for greater transparency and equity. It also dramatically increases the central government's desire to monitor the tax administration effort when it previously could simply wait for the delivery of the negotiated contractual amount from the local authorities. What better way to strengthen its monitoring than to set up its own tax-collection apparatus! Thus a key element of the tax reforms was a fundamental reform in tax administration and the establishment of separate central (national) and provincial (local) tax administrations. In short, the 1994 reforms not only demarcated the taxation powers between the central government and the provinces but also provided the establishment of separate state and local taxation bureaus at the provincial, prefectural, city, and county levels.[7]

In terms of organizational hierarchy, the State Administration of Taxation (SAT) directly oversees the provincial state taxation bureaus (*guoshuiju*) in what is known as *chuizhi guanli*, or vertical administration. Within this vertical administration structure, each level supervises the next level in matters of organization, staffing, budgets, and leader

6 All taxes collected from Customs go to the central government treasury. As the state tax bureaus are built up, the Customs Administration was upgraded to ministerial status and reconstituted. The reconstitution placed 41 Customs Offices directly under the supervision of the central administration (*Zhishu haiguan*) whereas previously they were under the dual leadership of center and localities with the balance favoring local authorities (*RMRB*, October 25, 1999).

7 In Heilongjiang, for example, the existing taxation personnel were transferred to state and local taxation bureaus according to the ratio of 6 to 4 (*Heilongjiang ribao [Heilongjiang Daily]*, September 19, 1994; FBIS-CHI-94-192).

duties.[8] This organizational strategy signaled a retreat from the emphasis on decentralization that had prevailed for more than a decade and was evidently a key element of the new focus on strengthening central control. The establishment of the state tax (*guoshui*) administration means that the central government is no longer dependent on the goodwill of the local authorities.

Because the state taxation bureaus are mainly staffed by locals, the Ministry of Finance is concerned about local influences on the behavior of these bureaus. Interviews suggest that local government officials, including deputy governors, sometimes ask the state tax bureaus to be more lenient in collecting taxes for the central government. In order to ensure compliance with central government policies, the Ministry of Finance has also set up special representative officials in provincial units as well as large cities with independent planning status (*jihua danlie shi*) in conjunction with the tax and fiscal reforms. The representative office in Shandong, for example, has a staff of more than forty (compared with over 30,000 employees in the state taxation bureau). The representative office has two major functions: the supervision of centrally disbursed expenditures to ensure compliance with central government spending targets and the supervision of the state taxation bureau to ensure the collection of taxes owed to the central government.[9]

Supervision of the provincial local taxation bureaus is shared between the SAT and provincial governments under dual leadership, but the provincial governments supply the funds and personnel and are the dominant partner. In various provinces, the director of the provincial finance department doubles as director of the provincial local taxation bureau.[10] Although the state and local tax bureaus collect different taxes, they also coordinate and collaborate with each other. This is most obvious in tax registration. The state taxation bureau is responsible for registering taxpayers liable for the value-added tax whereas the local taxation bureau registers those who pay the business tax and other local taxes. The two

8 "Separation of State, Local Tax Systems Nearly Complete," Xinhua, August 15, 1994, FBIS-CHI-94-160.

9 Shandong interview, June 26, 2000.

10 "Guizhou Leaders Inaugurate State, Local Taxation Bureaus," Guizhou People's Radio Network, August 13, 1994, FBIS-CHI-94-157; "Sichuan Sets Up State, Local Taxation Bureaus," Chengdu Sichuan People's Radio Network, August 11, 1994, FBIS-CHI-94-158.

bureaus are to share their registration lists for reference and to conduct verification of the list jointly.[11]

In spite of the adoption of vertical administration and the establishment of the supervisory representative offices, the diversification of ownership made it more difficult for the central government to collect taxes that were proportionate to its share of ownership in various enterprises. When bureaus of industry and commerce register firms by capital structure, they do not differentiate between central and local ownership (both are referred to as state ownership), thus making it difficult for state taxation personnel to keep track of central-government-owned shares. Partly in response to these concerns but also to further boost the central government's fiscal strength, in 2002 the central government began to take a share of corporate and personal income taxes, both of which had been assigned to local governments in 1994. Over time the 2002 reforms, building on the basis of the 1994 reforms, are expected to dramatically expand the central government's fiscal prowess vis-à-vis the localities, just as the expansion of the personal income tax in the United States greatly facilitated the expansion of the Federal Government in the United States.

REVAMPING THE SYSTEMS FOR FINANCIAL SUPERVISION

Until the late 1990s, branches of the People's Bank of China (PBOC), officially the central bank only since 1984, were not only based in provincial capitals and larger cities but were also subject to the dual leadership of provincial and local governments.[12] Provincial party officials were key players in choosing heads of the PBOC's provincial branches; they also had much influence on the choice of branch officers of the major state banks. Consequently, as Lardy noted, until 1993 "the provincial branches of the central bank responded primarily to provincial level political leaders rather than central bank headquarters in Beijing" (Lardy, 1998, pp. 90–1).

Whereas fiscal decentralization increased the need for macroeconomic coordination and control, the decentralization of the banking system, by making central bank branches (as well as branches of the major state

11 Jin Man, "Tax Bureaux Roles Defined," *CDBW*, September 18, 1994.

12 The People's Bank was formally designated as the central bank by a State Council resolution on September 17, 1983.

banks) susceptible to local government influence, compounded that need. Local government officials seeking high growth rates – on which they tend to be evaluated – eagerly exerted pressures on state banks to make loans to local enterprises. For them, macroeconomic stability is a public good best left to others. Partly because of the intermarriage between political and financial power, the Chinese state banks through the first half of the 1990s became overextended in capital investment and real estate development, often through bank-affiliated investment and trust companies. Some of the bank funds were also funneled into speculative investments, including the nascent stock market. During the financial turmoil of 1993–1994, state bank branches often had little cash to pay farmers or lend to factories for operating funds and wage payments. According to veteran banking analyst Yang Peixin (1990), banks usually set aside as much as six yuan in cash reserves for each 100 yuan in deposits, but in May 1993, the average was reduced to only about 1 yuan. (*AWSJW*, May 31, 1993; *DJN*, June 30, 1993. Definitions of abbreviations used in this chapter are given at the end of the text.) China was on the brink of financial chaos in 1993.

Much of the lending from Chinese banks was made to state enterprises; a high percentage of the loans are nonperforming loans that plague the financial system (Lardy, 1998). Until bankruptcy of state enterprises became a real possibility in the late 1990s, it was rational for bank officials to follow the instructions of government officials and lend to state enterprises. Moreover, because domestic real interest rates were until recently consistently negative, credit demand far outstripped supply and bank lending was generally based on bureaucratic rationing through lending quotas rather than careful assessment of credit worthiness. The intermarriage of politics and finance thus provided patronage opportunities to officials in both local governments and banks.

Clearly, improvement in the regulation of the banking sector was sorely needed in China. The problem was not that the PBOC, the central bank, was not independent, though central bank independence is increasingly believed to contribute to stable macroeconomic performance (Alesina and Summers, 1993). Rather, the PBOC was until recently so beholden to local interests that it was often hardly acting like a central bank at all. By 1988, the PBOC had twenty-nine provincial branches, 529 city branches, and 1,760 county branches, and it had more than 130,000 employees (Holz, 1992, p. 31; World Bank, 1990b, p. 3). The more branches the bank boasted, the more access points it opened up for political influence by political elite in the localities. Local officials not only had much influence on lending decisions but also interfered in efforts by the central government to deal with financial irregularities.

To be fair, Chinese leaders in the reform era have constantly tinkered with the central banking system, beginning with the formal establishment of the PBOC as the central bank. There was also early recognition of the harmful effect of local influence over central bank branches. In 1988, the head office of the PBOC was empowered to appoint managers of local branch offices (World Bank, 1990b, p. 5). However, this order had a limited impact on local interference. Leaders of central bank branches continued to succumb to pressure from powerful local officials because the bankers needed the local governments' assistance in their work. The personal interests for bankers, including welfare for family members and postbanking jobs for themselves, also benefited from their rapport with local officials (*CD*, Dec. 22, 1998). Moreover, the large number of local bank offices also diluted the ability of the central bank headquarters to micromanage appointments.

As the central government worked hard to tame inflation and shore up the fiscal sinews of the state in 1993, it was again proposed that the central banking system should be revamped to make it more independent of local government interests.[13] The need for reform is clear from a comparison of the Chinese and American central bank systems. At the end of 1996, the PBOC employed some 180,000 people at more than 2,400 different offices around China.[14] In contrast, the U.S. Federal Reserve – the central banking system for the largest economy of the world – consists of its Washington headquarters, twelve regional reserve banks, and a staff of 23,000 (Epstein, 1999).[15] Such a comparison implies that any restructuring of the Chinese central bank should not only entail structural reorganization that reduces the influence enjoyed by local governments but would also involve staff reductions.

To reform the central banking system, the Third Plenum of the 14th CCP Central Committee held in November 1993 decided that a unified monetary policy demanded that the branches of the central bank be offices

13 For information about the evolution of the PBOC up to 1992, see Holz, 1992.

14 Karby Leggett, "China Central Bank Details Reorganization To Bolster Oversight," *DJN*, November 16, 1998.

15 It should be noted that there have also been calls for reforming and downsizing the Federal Reserve.

representing the central headquarters. The plenum called for actively creating the conditions for setting up central bank branches that span provincial boundaries in order to insulate banks from heavy meddling by local and especially provincial leaders.[16] The Banking Laws, promulgated in 1995, also stipulate that the PBOC conducts an independent monetary policy under the leadership of the State Council and its operations shall be free from interference from local governments, government departments, social organizations, and individuals.[17]

In spite of these pronouncements, the banking reform plan did not get off the ground immediately. This was partly because central leaders focused their attention on negotiating with provincial leaders over taxation and fiscal reforms. These negotiations over central–provincial relations required the expenditure of significant political resources by central leaders. Not wanting to fight political battles on all fronts, the central leadership put aside the central bank restructuring, which also faced strong local opposition for the reduction of local influence as well as jobs. Instead, the central government combined monetary policy with political discipline, highlighted by the appointment of Vice Premier Zhu Rongji as PBOC governor in order to control credit and tame inflation. These measures were enough to bring about a soft landing for the Chinese economy (Yang, 1999). By late 1997, the Chinese economy, squeezed by domestic monetary tightening and the Asian economic crisis, had finally left inflation behind and entered into a period of deflation. In short, China's ability to fall back on extraeconomic measures to stabilize the economy actually served to dull the urgency to reform the central banking system.

The onset of the Asian financial crisis in the summer of 1997, however, sent a jolt to Chinese leaders. To be sure, compared with Thailand and other countries, China fared quite well during the crisis; this was partly because China had accumulated a large foreign-exchange reserve in the aftermath of the 1993–1994 macroeconomic crisis, and partly because the Chinese currency was not freely convertible for the capital account. Nevertheless, like most other Asian countries, China was also afflicted with the problems of an underdeveloped legal system, corruption, a banking

16 This was further reiterated in the State Council's decision on the reform of the financial system issued in December 1993. The idea of superregional branches was also mooted in the Bank by 1990 (World Bank, 1990b, p. 5).

17 For background on the drafting of the banking laws, see *RMRBO*, December 8, 1993.

system that would be insolvent by western standards, weak financial supervision, cozy relations between government and business, and other symptoms that were found to have contributed to the financial meltdown in Thailand, South Korea, and Indonesia. Moreover, China's status as one of the world's major traders and leading destinations for foreign direct investment also implied vulnerability to external shocks. The political fallout from the Asian crisis, as evidenced in elite turnovers in several countries and the dramatic fall of the Suharto regime in Indonesia, highlighted the potentially enormous political costs of financial failure for Chinese leaders. There was sufficient concern within China that a massive bank failure in China would not only bring the Chinese economy to its knees but could bring to an end the Communist Party's rule.[18] As a member of the Bank for International Settlements, the PBOC participated in the drafting and revision of the 25 core principles on effective banking supervision that were issued by the Basel Committee on Banking Regulations and Supervisory Practices in September 1997.

To cope with the effect of the Asian financial crisis and prevent the occurrence of a financial meltdown, the Chinese Communist Party Central Committee and the State Council convened a national financial work meeting in November of 1997. By now, the death of patriarch Deng Xiaoping had passed uneventfully. Once they had weathered Deng's departure, it was clear that Jiang Zemin and his colleagues were in control. It was decided at the meeting that a comprehensive restructuring of China's financial system, especially the central bank, would be undertaken over a three-year period in order to establish a sound regulatory and supervisory framework and to reduce financial risk.

This call for action in financial reform resurrected the plan for revamping the central banking system. First, the PBOC had to participate in the overall government reform. Some had expected that the PBOC head office would be spared from staff cuts, as had happened in past administrative reforms, so that it could focus its attention on strengthening key functions, including research and policy formulation, bank supervision, and financial regulation.[19] This was not the case; instead the headquarters

18 A number of Chinese scholars in Beijing suggested such a possibility in interviews I conducted over 1996–1998.

19 Kathy Chen, "People's Bank of China Plans To Slash Staff by Up to 50%," *WSJ*, April 30, 1998.

were expected to drastically reduce staff and improve efficiency. In a demonstration of commitment to reform, in August 1998, staff size for the PBOC was reduced from over 2,000 to 500 through early retirement, retraining, and transfers. As the head count at headquarters was cut as part of the State Council reorganization, there was also some effort to streamline the local branches. In September, 167 county and municipal branches were abolished and some others merged to boost supervision and cut costs (Reuters, July 22, 1998).

The need for financial reform was underscored by the failure of Guangdong International Trust & Investment Corporation (GITIC) in October 1998, when GITIC was unable to pay debts of more than $2 billion (U.S. billion). The failure of GITIC and other local government investment and trust vehicles, known as Itics, drove home the message that local authorities cannot be relied on to enforce the financial discipline that prudence demanded. This prompted the central leadership to accelerate financial reforms, including preparing the ground for overhauling the spatial structure of the PBOC. In particular, Dai Xianglong, PBOC Governor lamented the webs of local connections that enmeshed the local branches of the PBOC and seriously undermined the quality and efficiency of financial supervision. For Dai, intervention from local government officials was a major source of risky loans and major financial irregularities. According to Dai, countries including the United States, Great Britain, Japan, Mexico, India, and many others all have central bank branches covering whole regions rather than single states or provinces.[20] The abolition of provincial branches of the PBOC in favor of superprovincial branches should help guarantee the independence of the central bank in exercising its supervisory role (see Table 4.1).

In late 1998, the central government implemented a PBOC restructuring plan to abolish the thirty-two provincial-level branches and set up nine regional branches.[21] In addition to the regional branches, the Beijing head office oversees the Beijing and Chongqing branches of the PBOC. What is most important is that the PBOC directly appoints the directors of the regional offices. Indeed, in appointing directors of the regional branches,

20 Interview with Dai Xianglong, Governor of the People's Bank of China, in *ZGB*, November 18, 1998.

21 The designation of regions is based on the amount of supervisory work (or financial activities) rather than on geographical size. The regional branches have representative offices in provinces in which the regional branch offices are not present.

Table 4.1. *PBOC Regional Branches*

Branch	Coverage Area
Tianjin	Tianjin, Hebei, Inner Mongolia, and Shanxi
Shenyang	Liaoning, Jilin, and Heilongjiang
Shanghai	Shanghai, Zhejiang, and Fujian
Nanjing	Jiangsu
Jinan	Shandong, and Henan
Wuhan	Hubei, Hunan, and Jiangxi
Guangzhou	Guangdong, Guangxi, and Hainan
Chengdu	Sichuan, Guizhou, Tibet, and Yunnan
Xian	Shaanxi, Gansu, Ningxia, Qinghai, and Xinjiang

the central government took care not to place appointees in their native provinces. These managerial strategies have helped the PBOC to finally break the curse of local interference that plagued the Chinese banking system for decades (though it has also become more difficult to get local leaders to be involved in financial supervision). Moreover, the central leadership has rotated top officials of the central bank and the major commercial banks, as well as the China Securities Regulatory Commission, in order to reduce corruption and strengthen management of the Chinese financial system.[22]

By consolidating authority into regional branches not beholden to provincial authorities, this reorganization has strengthened the implementation of monetary policy. In general, the PBOC has increasingly behaved like a central bank in a market economy rather than performing the many administrative roles it used to play. Most prominently, it resumed open market operations in 1998 after an initial trial in 1996 was suspended, making it a major tool of monetary policy (Reuters, Jan. 5, 2000).

Equally significant has been the PBOC's role in supervising the financial sector. Following the dramatic collapse of GITIC, the PBOC has

[22] Most prominently, in March 2000, there were the following rotations: the president of the China Construction Bank was appointed chairman of the China Securities Regulatory Commission; the president of the China Bank of Industry and Commerce became vice president of the Bank of China; the director of the Shanghai Branch of the PBOC was promoted to deputy governor of the PBOC; the chairman of the Everbright Group became president of the Bank of China; a vice president of the Bank of the China was appointed president of the China Agricultural Bank; and the president of the Bank of China was transferred to the post of president of the China Construction Bank.

become more aggressive in dealing with potential risks to the financial system. A host of provincial and municipal trust and investment companies has been closed. The PBOC has also ordered the four largest state commercial banks to tighten internal monitoring and risk management while improving incentives for performance. These stipulations, coupled with the detention and arrest of many banking officers, including Wang Xuebing, former Bank of China President, have driven home the message that fundamental changes are needed, particularly because China's World Trade Organization membership will in time let in formidable foreign competitors. Caught between tougher regulatory demands and growing competition, the big commercial banks have each closed a large number of underperforming branches, tightened internal control and risk management, and developed new products (principally consumer loans for houses and automobiles). By 2001–2002, the reforms of the commercial banks finally began to produce dividends in reducing the ratios of nonperforming loans (NPL). During 2002, when each of the big four state-owned commercial banks had adopted the more stringent five-category loan classification scheme, the China Construction Bank reduced its NPL ratio by 3.99 percentage points to 15.4 percent. The Bank of China whittled down its NPL ratio by 5.1 percentage points to 22.4 percent. The NPL ratio for the Industrial and Commercial Bank of China dropped by 4.3 percent to reach 25.5 percent, whereas that of the Agricultural Bank of China, which has been loath to disclose its nauseating NPL ratio, decreased by 4.7 percentage points.[23] These ratios remain extraordinarily high by international standards, but, in light of the progress made so far, they offer the hope of working out China's banking mess through further NPL reductions by the banks themselves, government recapitalization, and share sales.

Whereas regulation of the banking sector has required the refitting of an old structure, the newly emerging markets for securities and insurance have necessitated the establishment of brand-new regulatory frameworks. For the sake of space, these are not discussed here. Suffice it to say that the regulation of these industries has also been centralized and strengthened.

[23] The NPL ratio for the China Construction Bank would be 15.2 percent if data from offshore branches are included. These bank data are from *Guoji jinrong bao [International Financial News]*, January 24, 2002; *Jingji cankao bao [Economic Reference Daily]*, January 24, 2003; and DJN, January 22, 2003.

In the case of the securities industry, the central government took control of the regulatory apparatus from local governments in 1998. With the formal implementation of the Securities Law on July 1, 1999, the branches of the China Securities Regulatory Commission became operational nationwide, thus forming a centralized and unified network of securities supervisors.[24] At the same time, a move was also made to establish a unified share registration, transaction, and settlement system for the two securities markets (Shanghai and Shenzhen) to enhance efficiency and reduce transaction costs for investors (*CD*, July 26, 2000). By the early 2000s, China's securities regulatory authority had acquired teeth that bite: chronic loss makers have been delisted from the stock exchanges; corporations and officers found to have engaged in massive accounting fraud have been subject to various forms of punishment, including legal proceedings.

STRENGTHENING THE REGULATORY INSTITUTIONS FOR MAINTAINING MARKET ORDER

The Chinese leadership has also restructured various regulatory and enforcement agencies that play vital roles in ensuring market order and fair competition and in promoting sustained economic development. These agencies were mostly established in the reform era and include the State Environmental Protection Agency, the State Administration of Industry and Commerce, the State Intellectual Property Office (formerly the State Patent Bureau), the State Copyright Office, the State Administration of Quality Supervision, the State Food and Drug Administration, and the reconstituted Ministry of Land and Resources.[25] Complemented by nongovernmental organizations such as the Chinese Consumers' Association, these agencies are charged with the enforcement of state laws on patents, copyrights, trademarks and brand names, the environment, and quality and technical standards, as well as with the protection of consumer rights.[26] All these agencies possess regulatory power and enforcement

24 "Vice Premier Wen Jiabao Discusses Securities Market," Xinhua, June 27, 1999; FBIS-CHI-1999-0627.

25 Although ministries and commissions are constituent departments of the State Council, all the agencies listed here are directly attached to (*zhishu*) the State Council.

26 The State Administration of Industry and Commerce added a new bureau of consumer rights protection in 1998.

authority and are designated to protect the rights of owners and consumers. The State Administration of Industry and Commerce, for example, not only registers companies and oversees the regulation of various markets but also devotes much of its manpower to cracking down on trademark infringements, illegal advertising, and other practices that impair fair trade and harm consumers (particularly in the wholesale and retail areas; see Zhang Shengzu et al., 1999, pp. 76–7).

Although the growing prominence of these regulatory and enforcement agencies is evidence of the Chinese leadership's commitment to protect and sustain markets and an environment for fair competition in the market, these agencies have also been plagued by problems of local protectionism similar to those that affected the legal system. First, rather than emphasizing compliance with government product standards, some local officials tolerated local manufacturers who produced and sold substandard or counterfeit products because these businesses yielded profits for the producers and generated employment and government revenue that improved the career prospects of local officials. According to an investigation in Henan Province, 63 percent of products sold on the market were without a certificate of inspection (*CD*, Nov. 27, 1999). It is not unusual for local enforcement personnel and government officials to take bribes from producers of fake and substandard products and get directly involved in protecting the producers. After all, as one commentator wryly noted, crackdown on fakes does not generate revenue (*JJRB*, Aug. 11, 1999).[27]

Second, the incentives for local authorities to crack down on local producers of fake and shoddy products are reduced because the products tended to be sold beyond the local confines. Indeed, there is a tendency for local enforcement offices to focus their enforcement efforts on goods from the outside. By the same token, there is little reason for local enforcement authorities to cooperate on interregional cases.[28] The enforcement of national and industry standards is thus a public good that has tended to be undersupplied by local enforcement authorities. However, without adequate enforcement, shoddy and counterfeit products served only to

27 For a good example of how battery producers sought to forge an alliance to combat counterfeiting and how the alliance floundered in the face of local protectionism, see *CET*, September 3, 1999.

28 Commentary: "Dealing Blows to Fake Products, We Must First Deal Blows to Local Protectionism," *Shanxi ribao [Shanxi Daily]*, December 1, 1995; FBIS-CHI-96-002.

undermine the reputation of Chinese products and hurt lawful producers. In a written instruction to the National Conference on Quality Work, then-Premier Zhu Rongji noted that China would have no hope if fake and shoddy products were tolerated.[29]

For years, the Chinese press has aired complaints about products, ranging from exploding beer bottles to water heaters that leak poisonous carbon monoxide. Chinese critics have argued that efforts to supervise and enforce quality and technology standards have suffered because local quality supervision departments are departments within local governments. The national administration could only guide the local offices. According to Vice Premier Wu Bangguo, "The current local administration system is hard to ensure independent, unified, strict, and impartial law enforcement, which is inevitably subject to the interference of regional protectionism; it is difficult to deal with cases or impose a fine, and law-enforcement personnel are even subjected to persecution and retaliation" (Wu Bangguo, 1999). Thus, the local departments must first please local government officials. In this way, institutional incentive induces local protectionism. By fragmenting and undermining enforcement authority, manufacturers of fake and shoddy products thus had little fear of punishment. The proliferation of fake and shoddy products harms consumers, hurts the reputation of quality producers, and detracts from China's efforts to build world-class manufacturing, a goal that the Chinese leadership has been keen to pursue. The Development Research Center of the State Council estimates that, in 1998, the proliferation of counterfeit products caused the government to lose 24.6 billion yuan in taxes.[30] In the words of Wu Bangguo, problems with Chinese product, engineering, and service quality had become a major factor restraining China's economic development.

There is thus a need for a unified and effective quality and technology supervision system to alleviate the problems of poor quality, low grade, fake, and shoddy products. In a sense, exploding beer bottles and dangerous water heaters caught the attention of consumers and government leaders alike in China, just as Upton Sinclair and the muckraking journalists were able to capture the imagination of consumers and lawmakers in the United States decades earlier.

29 *RMRBO*, November 6, 1999.
30 *QB*, July 3, 2000.

The promotion of unified, effective law-enforcement departments that help protect economic integration and fair competition was an important theme of the government rationalization introduced in 1998. Rather than being downsized, the State Administration of Quality and Technical Supervision (hereafter referred to as the Quality Administration), previously subordinate to the State Economic and Trade Commission, was upgraded to the status of government bureau directly under the State Council. Moreover, its staff size in the Beijing headquarters remained at 180. In addition, staff at affiliated centers and organizations in Beijing numbered around 4,000. Altogether the quality and technical supervision "system" had about 100,000 employees, generating two billion yuan in fees per year. Its 200-plus technical centers make it one of the most technical government services (Interview with Quality Administration official, June 22, 1999). In 1999, the Quality Administration conducted random tests of 8,905 products belonging to 218 categories (*ZXS*, Jan. 18, 2000). The government reorganization also allowed the Quality Administration to expand its functions. Previously the industrial ministries and departments and the Ministry of Labor were primarily responsible for issuing quality licenses for products such as boilers and elevators, leaving enforcement to the Quality Administration. In the fall 1998, the Guangdong Provincial Bureau of Quality and Technical Supervision took over the issuance and management of product licenses (*RMRBO*, Aug. 30, 1998; *RMRB*, Sept. 22, 1999). With its power to oversee quality management systems certification such as ISO 9000 and product certification and the authority to publish the results of such certification, the Quality Administration has become one of the main arms of the regulatory state.

Since 1998, a system of vertical administration has been introduced in these various administrations. In December of 1998, lower-level industry and commerce offices beneath the provincial level were placed under the direct management of their superior organs instead of local governments (*CD*, Dec. 2, 1998). In the spring of 1999, the party Central Committee and the State Council decided to adopt vertical administration of the quality and technical supervision system under the provincial level. As Vice Premier Wu Bangguo noted at a National Working Conference in March 1999, whereas local quality and technical supervision bureaus, primarily those at the county level, were previously administered by local governments, vertical administration empowered the provincial department to directly supervise the offices ranked immediately below it in prefectures and counties. Moreover, quality and technical supervision bureaus are also empowered to directly oversee technical units affiliated with them. The State Environmental Protection Agency and the State Food and Drug Administration also undertook similar organizational changes.

By the year 2000, vertical administration had become a model of institutional design and spread to various other areas, including the Ministry of Land and Resources, the administrations of coal mine safety inspection, maritime safety, and aquatic safety, as well as to the management of central government grain reserves (Xinhua, April 13, 2000; May 10, 2000). In virtually all these areas, vertical control was imposed following disasters or reports of gross mismanagement in certain areas. In response to a major maritime disaster in Shandong, the Ministry of Communications decided that local officials had been ineffective and chose to set up twenty maritime safety administrations in eleven coastal provinces. These administrations are directly answerable to the ministry so that central government regulations governing shipping safety are implemented (Xinhua, Dec. 28, 1999). In the case of coal mines, although ownership of mines was devolved to local authorities in recent years, the State Administration of Coal Industry centralized the supervision of safety in a newly created Bureau for Supervising Coal Mine Safety. Previously, local coal industrial administrations supervised coal mine safety in the localities but did not always make safety a top priority. The State Administration of Coal Industry, which became responsible for industrial safety, emphasized that the new supervisory authority in the central government would "operate as an independent entity... and will not be easily affected by local interests" so as to better regulate China's accident-prone coal mines (Xinhua, Jan. 10, 2000; March 8, 2000).

The intention of the reformers is evidently to enable the state regulatory agencies to enhance the hierarchical administration of the functions such as quality supervision and more effectively enforce the relevant laws with relative autonomy from the influence of local authorities. In the case of the Quality Administration, the Beijing headquarters previously only guided local developments. The reorganization under the rubric of vertical administration empowered Beijing to direct the provincial bureaus. Because Beijing can now veto appointments of the provincial bureaus, this system of vertical administration can thus strengthen the chain of command radiating from Beijing to the localities; it is no longer a system of administration pulled in different directions by local interests (*CD*, March 29, 1999). With this institutional reorganization, the headquarters have gained more control over cadre management, organizational structure, staff size, funding, and international exchanges. A particularly significant development is the consolidation of budgets. The Planning, Finance and Technology Bureau of the Quality Administration coordinates with the Ministry of Finance on a unified budgeting for the system and allocates funds for technical labs, thereby giving it much leverage. Budgets for local quality and technical supervision offices are consolidated in provincial-level budgets. Moreover, bureaus of quality and technical supervision at various levels and their subordinate technical units are required to promptly deliver all fines, proceeds from confiscated property and goods, and administrative fees to the central or provincial-level finance departments in full. There was also hope that the reform would improve staff quality by making it more difficult for local authorities to transfer personnel into quality and technical supervision departments (Wu Bangguo, 1999). By gaining more organizational control, the central government should be able to improve the consistent and fair implementation of laws and regulations and thus promote market order.

It should be pointed out that the system of vertical administration adopted in 1998–1999 was not complete but resulted from a compromise. The State Environmental Protection Agency is a good example. Originally there was a push for putting local agencies under the direct command of the central administration rather than making them dependent on local governments whose leaders tended to put growth above the environment. Indeed, some of the most vocal advocates for vertical control over the past decade were local environmental officials who were caught between the task of protecting the environment and the interference of local governments that had much leverage over their agencies. However, in the final push for vertical administration, some of these local advocates changed their positions.

One central official I interviewed indicated that the personal interests of local officials might explain this change of heart. When these local officials first advocated placement of local agencies under the direct command of the central agency, they were middle-aged bureaucrats with professional ambitions and would presumably benefit from a streamlined ladder of bureaucratic promotions. By 1998–1999, however, these advocates were getting closer to retirement age. If vertical command were adopted, they faced the prospect of retirement within a few years. In contrast, if they stayed within the local political establishment and placed their appointments under the authority of the local leaders, they could expect to transfer to the local people's congresses or political consultative conferences upon their retirement from government administration. They would thus retain not only perks and benefits associated with their ranks but also participation in monitoring the government and thus some political influence. As a result of local resistance, when the reform was finalized for the environmental agency, it was agreed that local environmental officials would not be under the sole direction of the central agency but would be subject to the dual leadership of both the agency and the local government.[31] Interviews with local offices of the State Administration of Industry and Commerce confirmed that officials of the field offices are still subject to the supervision of local party committees. Officials in these administrations comment that theirs is only half *chuizhi guanli*.

To be sure, the adoption of vertical administration within provincial units falls short of a nationwide unified administration and also reinforces existing boundaries among the provinces.[32] Nevertheless, given the size of each of China's provinces, it appears that provincial units should possess strong incentives to protect the reputation of their products. Provinces such as Shanxi and Zhejiang have seen their reputation ravaged by widely reported fatal incidents arising from the production of fake and shoddy products such as liquor. In response, officials from these provinces recognized that tolerating fake and inferior products is the same as drinking poison to quench thirst and cannot bring about sustained development.[33] Indeed, officials in Liaoning's Anshan found that their tough stand on the quality of food products not only helped save legitimate businesses but helped the local government garner popular support (*XDT*, May 26, 1999). In some localities such as Zhejiang's Wenzhou, officials have recognized the reputational value of high quality and have undertaken various initiatives, such as publicly burning counterfeit products, to burnish the reputation of locally produced products (Ye Chunjiang, 1999). Likewise,

31 Interview with State Environmental Protection Agency official, June 18, 1999.

32 Since 1996, the central government has been conducting a survey of provincial boundaries to reduce conflicts over resources. *CD*, February 1, 1999.

33 Commentary: "Dealing Blows to Fake Products, We Must First Deal Blows to Local Protectionism," *Shanxi ribao [Shanxi Daily]*, December 1, 1995; FBIS-CHI-96-002.

liquor poisoning in Shanxi prompted the province to enact regulations on liquor making and especially to introduce licensing on liquor production, transport, and sales (*FZRB*, Sept. 10, 1999). Thus, despite the political incompleteness of the reorganization, the adoption of vertical administration at the provincial level still represented a major advance for organizational control. Following the adoption of vertical administration, the Quality Administration has been able to strengthen its work in several provinces, including Zhejiang, Fujian, and Guangdong, which are areas known for the widespread incidence of counterfeiting (Interview, June 16, 1999).

The effort to strengthen the Quality Administration and other regulatory agencies has been spurred on by the national legislature.[34] Take the case of the Product Quality Law. In 1999, the Standing Committee of the National People's Congress (NPC) made inspection of the enforcement of product quality laws a key item on its agenda. The NPC's inspection group went to Zhejiang, Chongqing, Shandong, Guangdong, and Henan in June and concluded that the situation in product quality remained grim. The inspection group concluded that the Product Quality Law was flawed, because it stipulated inadequate punishment for violators and did not sufficiently empower law-enforcement agencies. In response, the NPC took up the amendment and improvement of the Product Quality Law and formally approved the proposed amendments in July 2000. The amended Product Quality Law went into effect on September 1, 2000, giving law enforcers more power to inspect and providing for stiffer penalties against violators. The amended law includes articles targeted at the government itself. Article 25 forbids the Quality Administration and other government agencies from recommending products so that the administration or others would not compromise its administrative integrity. Article 65 provides penalties for government employees involved in protecting and abetting counterfeiters.[35]

Armed with more administrative muscle and strong legislative mandates, the regulatory agencies have become more forceful in enforcing

34 Ironically, as a consequence of the adoption of vertical administration, local administrators in the administrations are more attentive to directives from their bureaucratic superiors in the provincial administration but have become less receptive to supervision by local people's congresses (*RMRB*, August 2, 2000).

35 *BYD*, July 10, 2000; see *NFZM*, July 20, 2000, for criticisms of the amended law by Wang Hai, China's well-known and controversial consumer advocate.

laws, conducting more searches, and giving out stiffer penalties to violators. In the spring of 2001, the central leadership pooled the initiatives of the individual regulatory agencies together into a national drive to rectify market economic order. Authorities shut down half a million workshops producing fake products, and they confiscated 158 million illegal publications and 4.2 million copies of pirated software in 2001.[36] Much remains to be done, and China's rapidly evolving economic structure has also brought to the fore new problems (e.g., complaints about automobile, computer, and housing purchases). As Vice Premier Li Lanqing, head of the Leading Group in Charge of National Rectification and Standardization of Market Economic Order, noted, the quest for orderly market competition will be "protracted, difficult, and complex."[37] Nevertheless, measured in terms of consumer complaints, the national drive for an orderly market environment, coupled with the effect of market competition and growing consumer savvy, has helped address long-standing concerns about quality. According to data from the China Consumer's Association, the association received 309,231 consumer complaints in the first half of 2002, down 8.9 percent from the period one year earlier.[38]

CONCLUSIONS

Writing about the origins of the liberal economy, Karl Polanyi (1957) emphasized that "[t]here was nothing natural about *laissez-faire*; free markets could never have come into being merely by allowing things to take their course . . . *laissez-faire* itself was enforced by the state" (p. 139). China's leaders also do not have illusions about the market. Indeed, the expansion of market competition in China has been accompanied by myriad types of criminal activities ranging from financial fraud to the counterfeiting of goods that threaten to undermine popular support. In response, the Chinese government has devised a variety of institutional mechanisms to promote market order. These institutional initiatives have been complemented by a flurry of legislative activities to produce laws governing economic activities. The institutional renovations discussed in this chapter

36 "China To Continue To Improve Market, Economic Order," Xinhua, January 24, 2002.
37 "Li Lanqing Addresses Meeting on Rectifying Market Economic Order," Xinhua, June 24, 2002.
38 Xinhua, August 13, 2002.

certainly help the ruling elite stay in power, but what is equally important is that they help pay for the upkeep of the central government, promote stability of the financial system, and are generally conducive to the further development of market forces. Thus, contrary to the fears of some commentators, although China's post-Tiananmen leadership has sought to alleviate the decompository fissures through a reconfiguration of the system of political and especially economic governance, the institutional changes have *not* meant a return to the status quo ante of the Maoist era and the stifling of local initiatives. Instead, it does appear that the current leadership in China has found a middle road for organizing China that would provide the means for implementing the will of the central government while leaving room for local initiatives.

The reconstitution of the sinews of central control promises not only to furnish the fiscal prowess for the central state but also to provide the foundations for the pursuit of the American Progressive's ideal of the regulatory state. With strong administrative muscle that is no longer beholden to local authorities, central state power can potentially be used to offer fair administration such as uniform registration for companies, protection for consumers, safety on the seas (through central control of maritime patrol), and more evenhanded justice. In this sense, the ruling regime is not simply doing something that is only for its own good but also for the good of the public. The reconstitution of the central state is therefore not just a rebuilding of the old state that had an iron fist but short and weak fingers. Instead, with the reconstitution, the central state may finally possess elaborately constructed arms, hands, and fingers that could play in coordination to produce good music.

ABBREVIATIONS

AWSJW	*Asian Wall Street Journal Weekly*
BYD	*Beijing qingnian bao [Beijing Youth Daily]*
CD	*China Daily*
CDBW	*China Daily Business Weekly*
CET	*Zhongguo jingji shibao [China Economic Times]*
DJN	Dow Jones Newswire
FBIS	Foreign Broadcast Information Service
FZRB	*Fazhi ribao [Legal Daily]*
JJRB	*Jingji ribao [Economic Daily]*

NFZM	*Nanfang zoumo [Southern Weekend]*
QB	*Qiaobao [China Press]*
RMRB	*Renmin ribao [People's Daily]*
RMRBO	*Renmin ribao [People's Daily]*, overseas edition
WSJ	*Wall Street Journal*
XDT	*Xinhua meiri danxun [Xinhua Daily Telegraph]*
Xinhua	Xinhua she (Xinhua News Agency)
ZGB	*Zhongguo gaige bao [China reform news]*
ZXS	Zhongguo xinwen she (China News Agency)

REFERENCES

Alesina, Alberto and Lawrence H. Summers, "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," *Journal of Money, Credit, and Banking*, 25 (May 1993), pp. 151–62.

Bahl, Roy, *Fiscal Policy in China: Taxation and Intergovernmental Fiscal Relations* (San Francisco: The 1990 Institute, 1999).

Carpenter, Daniel, *The Forging of Bureaucratic Autonomy: Reputations, Networks, and Policy Innovation in Executive Agencies 1862–1928* (Princeton, NJ: Princeton University Press, 2001).

Chang, Gordon, "China Rediscovers Mao," *Far Eastern Economic Review*, October 7, 1999.

Chung, Jae Ho, "Beijing Confronting the Provinces: The 1994 Tax-Sharing Reform and Its Implications for Central-Provincial Relations in China," *China Information*, 9 (Winter 1995), pp. 1–23.

Epstein, Gene, "No Place Like Home," *Barron's*, August 2, 1999.

Fligstein, Neil, *The Architecture of Markets* (Princeton, NJ: Princeton University Press, 2001).

Holz, Carsten, *The Role of Central Banking in China's Economic Reforms* (Ithaca, NY: Cornell University East Asia Program, 1992).

Oi, Jean, "Fiscal Reform and the Economic Foundations of Local State Corporatism in China," *World Politics*, 45 (1992), pp. 99–126.

Polanyi, Karl, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957) (originally published 1944).

Qian, Yingyi and Chenggang Xu, "The M-Form Hierarchy and China's Economic Reform," *European Economic Review*, 37 (1993), pp. 541–8.

Skowronek, Stephen, *Building a New American State: The Expansion of National Administrative Capacities* (Cambridge, England: Cambridge University Press, 1982).

Sun Wenxue and Wang Yuwu, "A Discussion on Obstacles to All-Around Implementation of the Tax-Assignment System and Their Solutions," *Caijing wenti yanjiu [Research on Financial and Economic Problems]*, No. 10 (October 5, 1994), pp. 43–6; FBIS-CHI-95-002.

Wiebe, Robert, *The Search for Order 1877–1920* (New York: Hill and Wang, 1967).

World Bank, *China: Between Plan and Market* (Washington, D.C.: The World Bank, 1990a).

China: Financial Sector Policies and Institutional Development (Washington, D.C.: The World Bank, 1990b).

Entering the 21st Century: World Development Report 1999/2000 (New York: Oxford University Press, 2000).

Wu, Bangguo, "Wu on Quality, Technical Supervision," Xinhua Domestic Service, March 26, 1999; FBIS-CHI-1999-0405.

Xiang Huaicheng, "Socialist Market Economy and Building the Taxation System," *RMRB*, July 10, 1997; FBIS-CHI-97-212.

Xie Ping, "Bank Restructuring in China," in *Bank Restructuring in Practice* (Basel, Switzerland: Bank for International Settlements, 1999), Policy Paper No. 6 (August).

Yang, Dali L., "Reform and the Restructuring of Central-Local Relations," in David Goodman and Gerald Segal, eds., *China Deconstructs: Politics, Trade and Regionalism* (London, Routledge, 1994), pp. 59–98.

Calamity and Reform in China: State, Rural Society, and Institutional Change Since the Great Leap Famine (Stanford, CA: Stanford University Press, 1996a).

"The Dynamics and Progress of Competitive Liberalization in China," *Issues & Studies*, (1996b).

"Governing China's Transition to the Market," *World Politics*, 48 (April 1996c), pp. 424–52.

Beyond Beijing: Liberalization and the Regions in China (London/New York: Routledge, 1997).

"Economic Crisis and Market Transition in the 1990s," in Edwin Winckler, ed., *Transition from Communism in China* (Boulder, CO: Rienner, 1999), pp. 151–77.

Yang Peixin, *Chengbao zhi: qiye fada biyou zhilu [The Contracting System: The Only Road to Enterprise Prosperity]* (Beijing: Zhongguo jingji chubanshe, 1990).

Ye Chunjiang, "'Wenzhou moshi' zai tupo" ["The Wenzhou model is Being Remade"], *ZGB*, June 2, 1999.

Yuan Yanghe, Bao Yonghui, and Tang Jian, "Sunan xiangzhen qiye zai kuner zhong yunniang xin de xiwang" ["TVEs in Southern Jiangsu Brew New Hope Amid Difficulty"], *Liaowang [Outlook]*, No. 17 (1998), pp. 4–6.

Zhang Shengzu, Li Jian, and Wang Yan, eds., *Zhengfu jigou gaige yu renyuan fenliu zhengce fal"u zhishi shouce [Handbook of Policies and Legal Knowledge on Government Administrative Reform and Personnel Diversion]* (Beijing: Fal"u chubanshe, 1999).